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Extending credit to
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Washington

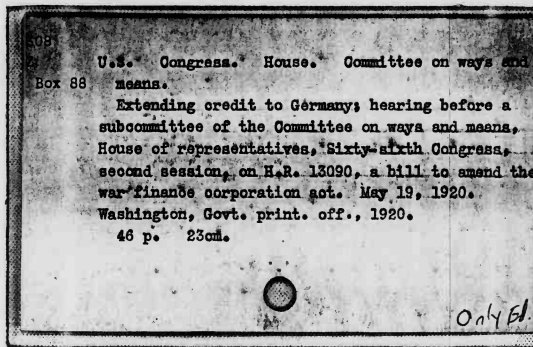
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EXTENDING CREDIT TO GERMANY

HEARING

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON WAYS AND MEANS

HOUSE OF REPRESENTATIVES

SIXTY-SIXTH CONGRESS

SECOND SESSION

ON

H. R. 13090

A BILL TO AMEND THE WAR FINANCE
CORPORATION ACT

MAY 19, 1920



WASHINGTON
GOVERNMENT PRINTING OFFICE

1920

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COMMITTEE ON WAYS AND MEANS.

HOUSE OF REPRESENTATIVES.

SIXTY-SIXTH CONGRESS, SECOND SESSION.

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 WILLIAM R. GREEN, Iowa. CLAUDE KITCHIN, North Carolina.
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EXTENDING CREDIT TO GERMANY.

SUBCOMMITTEE OF THE
COMMITTEE ON WAYS AND MEANS,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Wednesday, May 19, 1920.

The subcommittee this day met, Hon. Willis C. Hawley presiding. Mr. HAWLEY, Gentlemen, this subcommittee was appointed to consider, on behalf of the Committee on Ways and Means, H. R. 13090, a bill to amend the war finance corporation act, and to hold hearings and report to the full committee for its consideration the matters to be presented to-day. The bill will be printed in the record.

(The bill referred to is as follows:)

[H. R. 13090 (by Mr. Smith of New York). A bill to amend the War Finance Corporation act.]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the War Finance Corporation act is hereby amended by adding to Title I thereof a new section to read as follows:

"SEC. 22. (a) That the corporation shall be empowered and authorized to pay to any person, firm, corporation, or association engaged in business in the United States the contract price of supplies of food and raw materials hereafter purchased, or agreed to be purchased, by the German Government from any such person, firm, corporation, or association, and to accept in full payment of the moneys so advanced, the bonds, obligations, or other evidence of indebtedness to be issued by Germany for the payment of the moneys so advanced, to bear interest at the rate of 6 per centum per annum from the date of such advance: *Provided*, That the said contract shall be approved by the corporation as to price, quantity, and subject matter; that the said contract shall be for such supplies of food and raw materials as may be judged by the Governments of the principal allied and associated powers, parties to the treaty of peace between the said powers and Germany, to be essential to enable Germany to meet her obligation for reparation under the said treaty; and that the said bonds, obligations, or undertakings by Germany shall be a first charge on all the assets and revenue of the German Empire and its constituent states, and shall be paid in priority to all other bonds, obligations and undertakings of Germany except such as may be issued for the payment of the costs and expenses of the armies of occupation subsequent to the armistice of November 11, 1918.

"(b) The total advances to be made by the corporation shall not exceed \$1,000,000,000, and shall not be in excess of \$300,000,000 for any one year.

"(c) The terms of payment of the said bonds, obligations, or undertakings, the conditions of priority, and the assets and revenues of Germany, against which the said bonds, obligations, and undertakings shall be a charge, shall be fixed and established by the reparation commission appointed under and pursuant to the said treaty, subject to the approval of the corporation.

"(d) Any such bond, obligation, or undertaking shall provide that the payment thereof shall be a lien and charge against the property of Germany or of any of her nationals in the custody of the alien property custodian after the payment of debts due to the nationals of the United States.

"(e) There is hereby appropriated, out of any money in the Treasury not otherwise appropriated, the sum of \$1,000,000,000, or so much thereof as may be necessary, for the purpose of making payments by the said corporation as and when required under the provisions of this section."

Mr. HAWLEY. The Treasury Department, under date of March 26, 1920, made a report upon this bill, which I will ask the clerk to read. The report consists of one page. There are some accompanying documents that I think ought to be inserted in the record. The clerk will read the report, and I suggest that the letter, with the accompanying papers, be printed in the record, if there is no objection on the part of the committee.

(The letter and accompanying papers referred to are as follows:)

THE SECRETARY OF THE TREASURY,
Washington, March 26, 1920.

DEAR MR. FORDNEY: I received your letter of March 23 with the inclosed copy of a bill (H. R. 13990) introduced by Mr. Smith of New York, to amend the War Finance Corporation act. The bill appropriates a billion dollars, or so much thereof as may be necessary, for loans to be made through the War Finance Corporation to the German Government. For the reasons explained in the annual report of Secretary Glass and in his letter to the president of the Chamber of Commerce of the United States, dated January 30, of which a copy is inclosed, the Treasury is opposed to further Government loans even to the Governments of the Allies, except within the narrow limitations heretofore indicated. Its opposition, of course, extends to such loans to the German Government. The War Finance Corporation has heretofore been authorized to make loans to American exporters and American banks which finance American exporters upon adequate security. The Treasury would regard the making by indirection of a Government loan through the War Finance Corporation as even more objectionable than a direct loan by the United States Government to the German Government, believing that the operation would impair the usefulness of the corporation for the purposes for which it was created.

Very truly, yours,

D. F. HOUSTON.

HON. JOSEPH W. FORDNEY,
Chairman Committee on Ways and Means,
House of Representatives.

[Treasury Department. For morning papers, January 30, 1920.]

Following is copy of a letter which Secretary Glass has addressed to Homer L. Ferguson, president of the Chamber of Commerce of the United States of America:

JANUARY 28, 1920.

SIR: I have the honor to acknowledge receipt of the letter of January 22, 1920, signed by yourself and Messrs. A. C. Bedford, John H. Fahey, and Harry A. Wheeler, to whom, as a committee designated by the Chamber of Commerce of the United States, was referred a communication transmitting a memorandum signed by 44 prominent American citizens addressed to the United States Government, the reparations commission, and the Chamber of Commerce of the United States, recommending that the Chamber of Commerce of the United States designate representatives of commerce and finance to meet with those of other countries for the purpose of examining the situation as set out in the communication, and recommending such action as may be advisable.

In compliance with your request for an expression of opinion from the Treasury in respect to the observations and recommendations contained in the memorial, I may first state that the views and policy of the Treasury in respect to the international financial situation are set forth in the inclosed extracts from my annual report (p. 11 to 14, inclusive).

With much that is contained in the memorial the Treasury is in hearty accord. Concerning the need of increased production and decreased consumption, the need of balancing governmental budgets and taking effective measures to deflate currency and credit, concerning the need of prompt and proper determinations by the reparations commission which will make possible the resumption of industrial life in Germany and the restoration of trade with Germany, there can be no doubt.

The people of the United States are being called upon by taxes and otherwise not only to meet the Government's expenditures but to reduce the war debt. So far as the countries of Europe are concerned the adoption of similar policies is a matter for the Governments of those countries and for the reparations commission.

In an effort to alleviate the situation the United States Government has done all that was considered advisable and practicable. Since the armistice we have extended to foreign Governments the following financial assistance:

Direct advances.....	\$2,380,891,179.65
Funds made available to those Governments through the purchase of their currencies to cover our expenditures in Europe.....	736,481,586.76
Army and other governmental supplies sold on credit (approximately).....	685,000,000.00
Relief (approximately).....	100,000,000.00
Unpaid accrued interest up to Jan. 1, 1920, on allied Government obligations.....	324,211,922.00
Total.....	4,226,584,688.41

The Treasury is opposed to further governmental aid beyond that outlined in my annual report, and in my recent communication to the Ways and Means Committee of Congress with respect to the extension of interest on the allied Government obligations held by the Government of the United States and to the supplying of relief to certain portions of Europe. The Governments of the world must now get out of banking and trade. Loans from Government to Government not only involve additional taxes or borrowings by the lending Government with the inflation attendant thereon, but also a continuance by the borrowing Government of control over private activities which only postpones sound solutions of the problems.

The Treasury is opposed to governmental control over foreign trade and finance, and even more opposed to private control. It is convinced that the credits required for the economic restoration and revival of trade must be supplied through private channels; that as a necessary contribution to that end, the Governments of the world must assist in the restoration of confidence, stability and freedom of commerce by the adoption of sound fiscal policies; and that the reparations commission must adopt promptly a just and constructive policy.

The memorial which was simultaneously circulated in Europe differs in its scope and character from the one presented in the United States. The European memorial contains some passages omitted in the American memorial which apparently advocate further governmental financial assistance, and also requests the respective Governments to designate representatives to attend the proposed conference, which would give it an official character.

The Treasury has not looked with favor upon certain features of the memorial nor upon the proposed conference, being apprehensive lest the memorial and such a conference should serve to cause confusion and revive hopes (which, I am certain, are doomed to disappointment) that the American people through their Government will be called upon to assume the burdens of Europe by United States Government loans. Such matters as the suggestion of further governmental loans by the United States, the cancellation of some or all of the obligations of European Governments owed by the United States Government (as contemplated by a passage contained in the European memorial but omitted from the American memorial), and the deferring of obligations of foreign Governments held by the United States to liens created in favor of loans hereafter made for reconstruction purposes, are clearly not appropriate for consideration in such a conference as is contemplated by the memorial.

The existing world-wide inflation of currency, credit, and prices is a consequence of the fact that for a period of four or five years the peoples of this earth have been consuming and destroying more than they have produced and saved, and against the wealth so destroyed the warring nations have been issuing currency and evidence of indebtedness. The consequence of the world's greatest war is profound and inescapable. It has affected all the nations of the civilized world, as well as those who participated actively in the war as those who did not. The inflation exists in the neutral countries of Europe and in the Orient. It exists where there was no war debt, where the war debt was badly handled, and to some degree where the war debt was well handled.

The problems to the cure of which the distinguished gentlemen are directing their attention, have to be solved in one form or another, of daily study of the Treasury Department since the outbreak of the war, and especially since the signing of the armistice. These problems have at all times been complex and difficult, and simple solutions have never been possible, because they involve some factors which are not susceptible of solution by any comprehensive plan. The process of healing the wounds inflicted by the war must necessarily be slow and painful, involving as it does not only the physical restoration of industry and agriculture, but as well the restoration to habits of industry of masses of men accustomed by the war to unsettlement. We must neces-

sarily, and to a great extent, depend upon and encourage the independent activity and resourcefulness of each person affected to repair his own fortunes, with the assistance of his business connections in other countries, and also upon each individual to return to a normal life, industry and economy.

From the moment of the cessation of hostilities the Treasury of the United States has pursued a policy of looking toward the restoration as promptly as possible of normal economic conditions, the removal of governmental controls and interferences and the restoration of individual initiative and free competition in business. It has insisted upon strict economy in governmental expenditure and upon the maintenance of taxes at a level which, with the salvage of war materials and supplies, etc., will insure the prompt retirement of the floating debt of the United States and the establishment of a fund adequate for the retirement of the funded debt in the course of a generation. The Treasury long since, with the cooperation of the Federal Reserve Board, removed the embargo on the export of gold, thus enabling American citizens and, indeed, the nations of the world, to the extent that they find credit here, to finance their purchases throughout the world in cash.

Rightly or wrongly, a different policy has been pursued in Europe. European Governments have maintained, since the cessation of hostilities, embargoes upon the export of gold. The rectification of the exchanges now adverse to Europe lies primarily in the hands of European Governments. The normal method of meeting an adverse international balance is to ship gold. The refusal to ship gold prevents the rectification of an adverse exchange. The need of gold embargoes lies in the expanded currency and credit structure of Europe. Relief would be found in disarmament, resumption of industrial life and activity and the imposition of adequate taxes and the issue of adequate domestic loans.

The American people should not, in my opinion, be called upon to finance, and would not, in my opinion, respond to a demand that they finance the requirements of Europe in so far as they result from the failure to take these necessary steps for the rehabilitation of credit.

Such things as international bond issues, international guaranties, and international measures for the stabilization of exchange are utterly impracticable so long as there exist inequalities of taxation and domestic financial policies in the various countries involved, and when these inequalities no longer exist such devices will be unnecessary.

It is unthinkable that the people of a country which has been called upon to submit to so drastic a program of taxation as that adopted by the United States, which called for financing from current taxes a full one-third of the war expenditures, including loans to the Allies, should undertake to remedy the inequalities of exchange resulting from a less drastic policy of domestic taxation adopted by the other Governments of the world. The remedy for the situation is to be found not in the manufacture of bank credit in the United States for the movement of exports, a process which has already proceeded too far, but in the movement of goods, of investment securities and, in default of goods or securities, then of gold into this country from Europe; and in order that such securities may be absorbed by investors, our people must consume less and save.

The United States could not, if it would, assume the burdens of all the earth. It can not undertake to finance the requirements of Europe because it can not shape the fiscal policies of the Governments of Europe. The Government of the United States can not tax the American people to meet the deficiencies arising from the failure of the Governments of Europe to balance their budgets, nor can the Government of the United States tax the American people to subsidize the business of our exporters. It can not do so by direct measures of taxation nor can it look with composure upon the manufacture of bank credit to finance our exports when the requirements of Europe are for working capital, which is more than for bank credit. Lamentable as would be the effects upon our industrial life and upon Europe itself of the continued maintenance of an exchange barrier against the importation into Europe of commodities from the United States, this country can not continue to extend credits on a sufficient scale to cover our present swollen trade balance against Europe, while paying cash (gold and silver) to the countries of Central and South America and the Far East with which it has an adverse balance on its own and international account. The consequence of the maintenance by Europe of this barrier will be to force the United to do business with those countries with which it is able to do business on a cash basis. The only other policy which the United States could adopt would be the policy of reestablishing embargoes on gold and silver and of inflating its own currency to the same extent that the currencies of Europe are inflated with a view to lowering its exchange to parity with theirs. This would involve taxing the whole people for the benefit of our exporters and the benefit of Europe and submitting to have imposed on the United States domestic financial policies adopted by Europe but quite contrary to those

heretofore adopted by the United States. It would mean a world-wide inflation, the abandonment of the gold standard, and ultimately chaos.

If the peoples and Governments of Europe live within their incomes, increase their production as much as possible, and limit their imports to actual necessities, foreign credits to cover adverse balances would most probably be supplied by private investors and the demand to resort to such impracticable methods as Government loans and bank credits would cease.

There is no more logical or practical step toward solving their own reconstruction problems than for the Allies to give value to their indemnity claims against Germany by reducing these claims to a determinate amount which Germany may be reasonably expected to pay, and then for Germany to issue obligations for such amount and be set free to work it out. This would increase Germany's capacity to pay, restore confidence, and improve the trade and commerce of the world. The maintenance of claims which can not be paid causes apprehension and serves no useful purpose.

Private investors can only make loans to the extent of their savings in excess of domestic capital requirements, and then will only make them to the extent that they have confidence in the securities or obligations offered. The adoption of the measures indicated should add to the confidence of the private investor.

If the Chamber of Commerce of the United States considers it advisable and desirable to designate representatives to attend an unofficial conference, the Treasury does not desire to offer any objection provided the scope and character and limitations of such a conference, as well as the impossibility of United States Government action, are clearly understood.

Cordially, yours,

CARTER GLASS.

HOMER L. FERGUSON, Esq.,

President Chamber of Commerce of the United States of America,
Washington, D. C.

[From the annual report of the Secretary of the Treasury, 1914.]

THE INTERNATIONAL FINANCIAL SITUATION.

The international financial situation is one of great importance and in which we are seriously interested. The present position relative to foreign financing and the general policy of the Treasury concerning this vital problem should be fully stated.

Since the armistice the United States has advanced to the Governments of the Allies, as of the close of business October 31, 1919, the sum of \$2,329,257,138.55, and there remained on that date an unexpended balance of \$593,628,111.45, from the total loans of \$10,000,000,000 authorized under the Liberty loan acts.

The Treasury asked and obtained power for the War Finance Corporation to make advances up to the amount of \$1,000,000,000 for nonwar purposes and the War Finance Corporation is prepared to make such advances.

By the act approved September 17, 1919, the Federal Reserve Board is authorized to permit, until January 1, 1921, national banks to invest to a limited extent in the stock of American corporations principally engaged in such phases of international or foreign financial operations as may be necessary to facilitate exports.

The Secretary of War is authorized to sell surplus Army stores on credit.

The United States wheat director is authorized to sell wheat to Europe on credit.

The power which at present exists in the Government or governmental agencies to assist in meeting Europe's financial needs is therefore considerable. This power must, of course, be exercised with extreme caution and with the most careful regard for the urgent needs of our own people for an ample supply of foodstuffs and other necessities of life at reasonable prices.

The Treasury is considering with representatives of the Governments of the Allies the funding of the demand obligations which the United States holds into long-time obligations, and at the same time the funding during the reconstruction period, or, say, for a period of two or three years, of the interest on the obligations of foreign governments acquired by the United States under the Liberty loan acts.

The Treasury believes that the need of Europe for financial assistance, very great and very real though it is, has been much exaggerated both here and abroad. Our hearts have been so touched by the suffering which the war left in its train, and our experience is so recent of the financial conditions which existed during the war (when men were devoting themselves to the business of destruction), that we are prone to overlook the vast recuperative power inherent in any country which, though devastated, has not been depopulated, and the people of which are not starved afterwards.

We must all feel deep sympathy for the suffering in Europe to-day, but we must not allow our sympathy to warp our judgment and by exaggerating Europe's financial needs make it more difficult to fill them.

Men must go back to work in Europe, must contribute to increase production. The industries of Europe, of course, can not be set to work without raw materials, machinery, etc., and, to the extent that these are to be secured from the United States, the problem of financing the restoration of Europe belongs primarily to our exporters. Governmental financial assistance in the past and talk of plans for future Government or banking aid to finance exports have apparently led our industrial concerns to the erroneous expectation that their war profits, based so largely on exports, will continue indefinitely without effort or risk on their part. To them will fall the profits of the exports and upon them will fall the consequences of failure to make the exports. So soon as domestic stocks, which were very low at the time of the armistice, have been replenished, those industries which have been developed to meet a demand for great exports, paid for out of Government war loans, will be forced to close plants and forego dividends unless they maintain and develop an outlet abroad. The industries of the country must be brought to a realization of the gravity of this problem, must go out and seek markets abroad, must reduce prices at home and abroad to a reasonable level, and create or cooperate in creating the means of financial export business. There is no reason for high commodity prices in the specter of European demand nor for high interest rates in the specter of European credits. Our fear must be that the cessation of war exports will result in closed plants, passed dividends, and general depression. The way to avoid those evils is to stimulate production and encourage industrial and commercial activity and not to burden them with high interest rates, which are a deterrent to these things, but unfortunately are not a deterrent, except temporarily, in such times as these to speculation.

Since armistice day, the consistent policy of the Treasury has been, as far as possible, to restore private initiative and remove governmental controls and interferences. It has been the view of the Treasury that only thus can the prompt restoration of healthy economic life be gained. The embargoes on gold and silver, and control of foreign exchange have been removed, as well as the voluntary and informal control of call money and the stock exchange loan account. The control exercised by the capital issues committee over capital issues has been discontinued. Thus the financial markets of the United States have been opened to the whole world and all restrictions removed that might have hindered America's capital and credit resources, as well as its great gold reserve, from being available in aid of the world's commerce and Europe's need.

There are those who believe that the dollar should be kept at par—no more, no less—in the market of foreign exchange. If effective action were taken to carry out such a policy, it could only be done by drawing gold out of the United States when the dollar would otherwise be discounted and by inflating credit when the dollar would otherwise be at a premium.

The dollar is now at a premium almost everywhere in the world. Its artificial reduction and maintenance at the gold par of exchange in all currencies is quite unthinkable unless we propose to level all differences in the relative credit of nations and for our gold reserve substitute a reserve consisting of the promises to pay of any nation that chooses to become our debtor. Inequalities of exchange reflect not only the trade and financial balance between two countries, but particularly after a great war such as that we have been through, the inequalities of domestic finance. The United States has met a greater proportion of the cost of the war from taxes and bond issues than any other country. Largely as a consequence of this policy, the buying power of the dollar at home has been better sustained than has the buying power at home of the currency of any European belligerent. For the United States to determine by governmental action to depress the dollar as measured in terms of foreign exchange and to improve the position of other currencies as measured in terms of dollars would be to shift to the American people the tax and loan burdens of foreign countries. This shifted burden would be measured by the taxes to be imposed and the further loans to be absorbed by our people as a consequence, and by increased domestic prices.

United States Government action at this time to prevent in respect to foreign exchange the ordinary operation of the law of supply and demand, which automatically sets in action corrective causes, and to prevent the dollar from going to a premium when its natural tendency is to do so, would artificially stimulate our exports, and through the competition of export demand with domestic demand, maintain or increase domestic prices.

The view of the Governments of the Allies, I take it, is that had they (after the war control of their imports had been relaxed) attempted to continue to "peg" their exchanges here at an artificial level by Government borrowing, the effect would have

been to stimulate their imports and discourage their exports, thus aggravating their already unfavorable international balances.

It is not, of course, to be expected that the breach left by the withdrawal of governmental support of exchange can be filled by private initiative until the ratification of the treaty of peace has given reasonable assurance against the political risk which, rather than any commercial or credit risk, now deters private lenders. Some progress has already been made in placing here through private channels the loans of allied and neutral European countries and municipalities. The Treasury favors the making, in our markets, of such loans, which contribute to relieve the exchanges. I am sure that when peace is consummated, and the political risk measurably removed, American exporters and European importers will lay the basis of credit in sound business transactions, and I know that American bankers will not fail then to devise means of financing the needs of the situation nor American investors to respond to Europe's demand for capital on a sound investment basis.

Meanwhile it is well to remember the invisible factors which are always at work toward a solution of the problem. Immigrants' remittances to Europe are, and will continue to be, a very large item in rectifying the exchanges. As soon as peace is concluded foreign travel will be a further item. Another very important factor is the purchase of European securities and properties and repurchase of foreign-held American securities by American investors. But the principal factor in Europe's favor is the inevitable curtailment of her imports and expansion of her exports. These processes, of course, are stimulated by the very position of the exchanges which they tend to correct.

Mr. HAWLEY. Congressman Smith, you are the author of the bill, I understand. The committee will be glad to hear you.

STATEMENT OF HON. THOMAS F. SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK.

Mr. SMITH. Mr. Chairman, as you know, the bill before you is for the establishment of a credit in favor of Germany, amounting to a billion dollars, to be expended for food stuffs, and raw materials needed by Germany, the fund to be under the supervision of the War Finance Corporation. At the time I introduced the bill I gave out a statement in regard to it. I do not know whether you want your time taken up by my repeating that statement together with some additional points that I had in mind. It would take only a few minutes.

Mr. HAWLEY. We would be glad to hear anything pertinent to the discussion, Mr. Smith.

Mr. SMITH. Of course, I take it this loan differs from other loans that have been advanced by this country, in that this loan provides specifically that the expenditure of the money shall be made only in the United States.

In its broad outlines the bill provides that Germany may contract for the purchase of food stuffs and raw materials and secure the payment thereof by guarantees to be approved by the Reparations Commission. This is in accordance with the plan of the Allied Economic Council, which recently announced that measures would be taken to establish a credit in the allied or neutral countries in favor of Germany, which would have a priority over the reparations demands of the allied countries.

The bill proposes that the United States Government shall extend credit to Germany in the following manner: The War Finance Corporation shall pay the contract prices of such contracts as it may approve between Germany and any person or association engaged in business in the United States for the supplies of foodstuffs, raw materials, etc., hereafter purchased by the German Government,

and shall accept in payment of Germany's obligation under the contract the bonds of Germany, having such security and priority as is permitted by the treaty with Germany.

The bill also contains the interesting provision that the United States may be secured by the property in the hands of the Alien Property Custodian, after deducting the amounts necessary to compensate American citizens for losses incurred in the war.

The treaty of peace expressly contemplated that in the interest of the allied countries and to enable Germany to meet the demands of reparation, she would have to be supplied with food and raw material. Article 235 of the treaty, after providing for the payment of an amount approximately equivalent to \$5,000,000,000, before May 21, 1921, states as follows:

Out of this sum the expenses of the armies of occupation, subsequent to the armistice of November 11, 1918, shall first be met and such supplies of food and raw material as may be judged by the Governments of the principal allied and associated powers to be essential to enable Germany to meet her obligations for reparation, may also, with the approval of the said Governments, be paid for out of the above sum.

Article 251 of the treaty provides that the payment for such supplies of food and raw material for Germany as may be judged to be essential to enable her to meet her obligations in respect of reparation, "shall have priority to the extent, and upon the conditions which have been or may be determined by the Governments of the said powers."

In view of the express purpose for which food supplies and raw material may be furnished to Germany, that is, to enable her to meet her treaty obligations, the payment of the contract price of such articles purchased in the United States, or the repayment to the United States of any advances made, should be a lien on the resources of Germany prior to the payment of reparations, except the expenses of the armies of occupation. Since France and England are the main recipients of the reparation due from Germany, it is probable that they will be asked to guarantee the payment of supplies furnished to Germany. Another method by which payment may be secured is to allocate to the United States a specific portion of raw materials produced in Germany and required for our manufactures.

Substantially, the bill is an extension of credit by the United States to Germany. But this credit is extended only in connection with particular commercial transactions. It is not a general credit which can be availed of by Germany as it sees fit. The War Finance Corporation is given control over the amount and kind of merchandise to be purchased. This will enable it to prevent the export to Germany of an excessive amount of food supplies thereby producing a shortage in this country, with a consequent increase in price. Germany is in vital and immediate need of cotton, wheat, condensed milk, cattle feed, packing-house products, miltch cows, horses, cattle, and minerals. She needs one billion dollars worth of them. It is, on the other hand, vital to the United States to maintain an export market for these articles. Unless the farmer and producer is assured of an outlet for surplus, production in this country is bound to decrease with the result that prices will be further increased. The truth is that the export business of the United States has diminished 70 per cent in the past three months.

In business and financial circles it is strongly felt that unless some measure is adopted whereby the United States can trade with Germany, our export trade will soon become stagnant. In view of the fall in English and French exchange both of these countries would naturally take as much raw material as possible from the colonies and from Germany. On the other hand, if they are permitted to finance Germany, as contemplated by the economic council, the United States will be practically excluded from the German trade. The measure is submitted with the purpose of anticipating the greatest depression in our export trade with the consequent disturbance of industries and lack of employment that will ensue unless the threatened condition is promptly met.

About the time this bill was introduced in the House England was planning to give Germany commercial credit to the extent of \$3,000,000,000. The project was to borrow this money largely in the United States and to use it for the purpose of building up trade between Germany and the British colonies.

Only a few months ago our newspapers carried a cable account of a meeting in London of Lancashire Members of Parliament and capitalists interested in the cotton industry who were planning for the expenditure of £15,000,000 in a cotton production campaign in the English colonies with the view of ultimately controlling the business of selling cotton and cotton materials to Germany. If Great Britain succeeds in her aim to supply Germany and European countries generally with foodstuffs and raw material with money obtained from America, she, with her colonies, would shortly control the sea, if not the world, and deprive America of most of its export trade.

This bill proposes to establish a credit to enable Germany to purchase American foodstuff and raw material here—and only here—in America, where every dollar must be expended under the supervision of our War Finance Corporation.

The bill primarily benefits this country, for manifestly what Germany buys here in the way of cotton, phosphates, minerals, shoes, condensed milk, corn, cattle, feed, packing-house products, live cattle, sheep, hogs, cows, horses, raw material, etc., will affect nearly every farmer, exporter, business man, and citizen in the United States because of its stimulating influence on trade generally. It would also make available a billion dollars for foodstuffs and raw materials much needed at a time when Germany must have help if she would stem the tide of discontent and stop the spread of bolshevism. This credit will help her to be self-supporting, aid her to make financial atonement, and more than that will help her to establish herself as a republic.

MR. GARNER. Mr. Smith, may I ask you a question?

MR. SMITH. Yes, sir.

MR. GARNER. If I understood your argument with reference to the export of these goods, and affording an opportunity to export these goods and sell them abroad, it was that if we did not do so it would be calculated to increase the price of products in this country.

MR. SMITH. No, not exactly that.

MR. GARNER. I gathered from your statement that if we did not make some arrangement by which we could sell our goods abroad, it would tend to increase the price of them in this country.

Mr. SMITH. It would diminish production.

Mr. GARNER. In what way?

Mr. SMITH. Well, would the manufacturer be induced—

Mr. GARNER. Well, we have heard a number of arguments here, in which it has been stated, and it appealed to my sense of reasoning very strongly, that as long as we furnish Europe with the money to purchase our goods, in competition with our own citizens, the price of the goods is going to stay up. Now, we are producing so much of the goods in this country. The more we export the less we will have to consume ourselves, and the keener will be the competition for the goods in this country. If we continue to loan to Europe, to England, to Italy, to France, to Germany, and others, all the money they need to buy all of our goods, will not that have the effect of increasing the price of our goods in this country?

Mr. SMITH. Well, I think it would decrease production eventually, but I would like to present Senator O'Gorman, who wishes to speak on this matter.

Mr. GARNER. I merely wanted to bring that to the Senator's attention, because a number of arguments have been made here, and a number of economic writers have pointed out, that one of the many reasons for the high cost of living at the present time was that we continued to furnish Europe with money to buy our goods, that we continued to furnish Europe with money to buy our goods, in competition with our own people, and therefore prices would continue to stay high as long as we furnished the foreigners the money to buy in competition with our own people.

**STATEMENT OF HON. JAMES O'GORMAN, ATTORNEY AT LAW,
NEW YORK CITY.**

Mr. HAWLEY. Senator O'Gorman, before you begin, this committee is very inquisitive, usually. Would you prefer to make your statement without interruption, or would you object to answering questions as they may occur to the committee?

Mr. O'GORMAN. No; whenever a question occurs to a member, I would be very glad if he will ask it.

With the permission of the committee, I will direct the few observations I have to make particularly in answer to what is called the adverse recommendation of the Secretary of the Treasury. He calls attention to a letter of Secretary Glass just before he left the Treasury Department in which he announced as the policy of this administration an unwillingness to make any further loans to the European countries, Allies or others. Mr. Houston soon afterwards issued another statement publicly along the same line. Now, this is not a loan proposed by this bill, such as was contemplated either by Mr. Glass in his statement to the country, or by Mr. Houston in his proposition. Germany is not asking for a loan. The business men of this country, the exporters, the farmers, the cattle men, are asking for legislation which, while it will indirectly tend to bring about an economic rehabilitation of Germany, will confer a lasting benefit upon the business interests of this country.

I take it that it will not be disputed that the export business of this country at the present time is largely demoralized. In the city of New York men engaged in the export trade, without exception, com-

ment on the deplorable condition of that trade, and I do not have to tell the gentlemen of this committee, so familiar as they are with these economic problems, far more familiar than I am, that when the export trade of this country is paralyzed then the industry of the entire country feels the effect of it.

It is true at this time that Germany needs various raw materials and foodstuffs in order to take her place again in the society of nations, and to work out her destiny as a member of the society. She needs \$300,000,000 of cotton at the present time; she needs \$200,000,000 of grain; she needs \$100,000,000 of live stock, cattle, hogs, and sheep; \$300,000,000 is needed for packing-house products of all kinds, including lard, ham, hogs, beef products, fats, oils, and the like; \$100,000,000 is needed for minerals of all kinds, copper and other ores.

This bill, I should say in passing, provides that not more than a credit of \$300,000,000 shall be extended in any one year.

Another very important feature of the bill, distinguishing it from any other proposition that has come to Congress since the armistice, is that every dollar of this credit is to be expended in the United States.

Mr. GARNER. Senator, may I say in that connection that of the \$10,000,000,000, in round numbers, loaned to the Allies and to which Secretary Glass and Secretary Houston referred, 90 per cent of it was controlled by the Treasury Department, and the expenditures made in this country before the commitments were made. In other words, the practical application of the principle of your bill was applied to the loans to the Allies, as you propose to apply it to Germany. Not quite 100 per cent, but a very large per cent, of it was arranged to be spent in this country before the Secretary of the Treasury would make any commitment or agree to loan the money.

Mr. O'GORMAN. Was that a definite requirement or understanding?

Mr. GARNER. That was a transaction on the part of the Treasury. The legislation did not require it, except that the Treasury Department, in administering the legislation, did look into the question of the expenditure of the money before they agreed to loan it.

Mr. O'GORMAN. Of course, that was during the war period?

Mr. GARNER. Yes.

Mr. O'GORMAN. I might say, in passing, that a similar bill to the one introduced by Congressman Smith has been introduced in the Senate, although the amount there is very much reduced, and provides for an appropriation of only \$250,000,000, which would be wholly inadequate to cover the needs that I have set out to the committee; \$250,000,000 would be inadequate to supply the cotton needs of Germany at the present time.

In passing, I might observe, as you, of course, also well know, that in the textile industries, and for the raw materials necessary in those industries, Germany was our third best customer before the war, the third best customer in all the world. Now, that trade is languishing, it is dead. You can not trade with a nation when its money has gone down from 24 cents on a mark to 2 cents, as it is to-day, I think. Even in France, instead of the old ratio of about 5 francs to a dollar, you now have 16 or 17 francs.

Regarding the suggestion made that the furnishing of goods, or making it easy for any foreign nation to buy our goods, means an

increase in cost to the American consumer, let me say that it is the judgment, I think, of men who have familiarized themselves with the industrial conditions in this country, that you can not expect the greatest productivity in any industry, farming, cattle, cotton, or any other enterprise, unless there is a market, unless there is a demand.

In the statement issued by the Agricultural Department under date, I think, of May 5, it appears that there is an immense shortage in the acreage that ordinarily would be planted in the wheat industry of this country, a shortage, they estimate, of 5,000,000 acres. The estimated quantity that will be produced will be only 79 per cent of normal, which indicates a decline of 21 per cent. Now, if there is no market, that decline will continue to go lower. I admit, as an economic proposition, that if it were possible for this Government to impose an embargo, which it could not do except perhaps in war times, against the export of raw materials and foodstuffs, the price of many things would immediately fall, and some people would say, "Well, now, the high cost of living problem has been solved," but that condition would only be temporary.

Mr. GARNER. But, Senator, may I call attention to what the figures are with reference to our exports, as given by some who take the reverse position to yourself; for instance, in the year 1920, as compared with 1918, 1919, or 1914, even? Of course they are much greater now, but even since the armistice, in 1920, they are larger than they were in 1919; they are larger than they were in 1918.

Mr. O'GORMAN. May I ask you whether it is larger in quantity or estimated cost?

Mr. GARNER. Well, in dollars and cents, is all we have here. That is the only way the Treasury Department gives it.

Mr. O'GORMAN. I have been told, and I submit it deferentially to you, that the explanation of that erroneous statement consists in this, that when goods have been exported on a mark basis the computation is made upon the basis that a mark is worth 24 cents, when, as a matter of fact, it is only worth 2 cents.

Mr. GARNER. These are the exports, though, in dollars and cents. Mr. O'GORMAN. Now, as to how important that may be, if the committee please, I want to call attention to the fact that in a letter that was sent to the Secretary of the Treasury on March 3—I have not the letter, but I have a copy here, and I have his answer—attention was called to the fact that on March 3 there was a falling off in the export business of the United States from January 1, 1920, in the two months' period, of 70 per cent.

Mr. HAWLEY. Senator O'Gorman, the figure given here for the exports for the month of March, 1920, is about \$800,000,000.

Mr. O'GORMAN. Yes.

Mr. HAWLEY. The largest in our history, except for June, 1919, when they were \$900,000,000.

Mr. O'GORMAN. Let me quote from the letter of Secretary Houston, under date of March 9, which was addressed to Mr. Corbett, president of the Seaboard Co., a gentleman who is here and who may want to be heard before you conclude. The Secretary states:

I have received your letter of March 3, 1920, in which you state that the export business of the United States has fallen off about 70 per cent since January, 1920; that the only way to stabilize the cost of living and increase production is to assure the farmers of the United States that there will be an increase of exports, and that such

increase of exports can only be accomplished by making a treaty of peace direct with Germany and establishing a credit of at least \$1,000,000,000.

Now, the Secretary does not dispute that. He acquiesces in that statement that there is a falling off of 70 per cent in two months, and then he goes on with this answer:

I think the country must look for a falling off of European purchases here, because Europe can not afford to continue to run into debt in this country at the rate she did during the period of the war, and can not since the cessation of hostilities. In this connection I should point out that even if a credit were available to Europe, it does not follow that Europe would make large purchases of products in the American market.

I think his entire attitude is based upon the misconception evidenced in that last sentence. As a matter of fact, before March 9, he was advised that this proposed legislation contemplated the expenditure of every dollar in the United States, and yet he states:

In this connection I should point out that even if a credit were available to Europe, it does not follow that Europe would make large purchases of products in the American market.

But let us assume that the suggestion conveyed, Mr. Chairman, by you is a correct one, that our exports are larger than they ever were before. I take it that it does not require much argument to convince you that if they are good now they could be increased immeasurably if there were a fair field for the American business man to deal with Germany. It is stated as a matter of newspaper comment within the last few days—I assume you have read it—that the English merchants have undertaken to take immediate advantage of the trade relations with Germany and have adopted a plan of furnishing Germany with raw materials, and instead of taking back payment in depreciated currency they take back the completed product, which, I think, in time may find a sale perhaps in this country.

Mr. GARNER. Senator, that sounds to me like probably a sound economic method, but how are we to continue indefinitely to export two or three billion dollars' worth more than we import, and tax the people of this country to loan them the money to buy the goods, and ever expect to balance the books? There are only two ways, as I understand it, for people to pay for things they get. One is to pay in gold, or its equivalent, and the other is to ship us goods. According to the very latest report, the exports for the month of April exceed the imports by \$300,000,000 for that month.

Mr. O'GORMAN. From which country?

Mr. GARNER. From all countries.

Mr. O'GORMAN. Of course, you know that most of those countries in the war have not been able to send us anything.

Mr. GARNER. I understand, but how long are we going to continue the policy of exporting two or three billion dollars' worth more each year than we import, and continue to loan the people the money to settle up the balance?

Mr. O'GORMAN. In the first place, it is not contemplated by this legislation that we are going to give a credit of a billion dollars. As a matter of fact, you are not loaning even a billion dollars under this bill. It is estimated that the Alien Property Custodian has taken property of German nationals, aggregating in value \$900,000,000, and I am advised that the claims of American nationals against that

fund will probably not exceed \$150,000,000, possibly \$200,000,000. On that basis there is going to be a surplus there of \$600,000,000 or \$700,000,000, which will be held as security for this obligation.

We do not ask that it be used for this credit, but it is going to be held as security. In addition to that, we are going to have what will practically be a first mortgage on the resources of Germany. As the committee well understands, under the treaty of peace, to which we are not a party, Germany's resources are now practically mortgaged to the Allies for the purpose of these indemnities which a day or two ago were said to be fixed at something like \$22,000,000,000 or \$30,000,000,000, and it was estimated that it would take about 30 years to pay it off. You have read of this conference in the last 2 or 3 days, where they have practically agreed, so far as newspaper accounts may be accepted as correct, on the basis of \$22,000,000,000, or \$30,000,000,000, and I rather think that is so. I think myself, speaking impartially as a citizen, that the attitude of the British Government at this time is very friendly and sympathetic to Germany.

Mr. GARNER. And necessarily ought to be.

Mr. O'GORMAN. And ought to be.

Mr. GARNER. I think so. I think every encouragement ought to be given to that Government to establish a firm government.

Mr. O'GORMAN. They are peoples of kindred races. I suppose in the English strain to-day there is more of the Teutonic than of any other race. For 200 years every king or queen on the British throne has either been of German birth or German ancestry. England was never known to history, as you so well know, until about the sixth century, when they adopted the name which means that it is the land of the Angles and the Saxons, the people who came over from Schleswig-Holstein. There are thousands of reasons why England should be sympathetic with Germany at this time. Lloyd-George is very earnest in his desire, so far as he can consistently with his duty toward his own Government, to start Germany on the way to her economic development, and my information is that the Allies will not insist upon more than \$30,000,000,000 at the outside, from the Germans.

Mr. GARNER. Senator, may I refer to the fact that you propose to make this a first mortgage?

Mr. O'GORMAN. Yes.

Mr. GARNER. As it were, on the assets—

Mr. O'GORMAN. On the resources of Germany.

Mr. GARNER. On the resources of Germany. I presume you have noticed recently some eminent financiers of this country and among our allies have suggested that we put all of our bonds into hodgepodge and underwrite each other?

Mr. O'GORMAN. I hope the day will never come when this country yields to any such demand.

Mr. GARNER. That was said to have been the cry in Great Britain when we were making the treaty. We had some inkling of that. I do not know whether it was true or not, but some writers said that was the proposition among the Allies when they were making the treaty, and now the proposition is made, and it is very seriously made in this country, that we take from Germany, through England, her bonds, and that England shall underwrite them, and we can cancel England's obligation to us. That is being suggested; and you will

find a great deal of propaganda going through the country that we take these bonds that England will get from Germany and transfer them to the United States in settlement of that debt by England underwriting them and going on Germany's note, as it were, and therefore checking them off, as it were, of the bonds that she now owes this country.

Mr. O'GORMAN. I have sufficient confidence in the American Congress that it will never favorably consider that proposition.

Mr. GARNER. How, Senator, would we get a first mortgage on the resources of Germany?

Mr. O'GORMAN. That is very simple. Before answering that, however, if you will pardon me, I would like to convey another thought in connection with your very important one. That last proposition about saddling in an indirect way all of this \$22,000,000,000 or \$30,000,000,000 of German indemnity upon us has no more merit than the one put forward a few months ago, when a responsible officer of the British Government or a responsible member of the British Government said that the British Government was willing to cancel the loans it had made to the bankrupt nations of central Europe if we would follow along in the same line and cancel England's obligations to us, the fact being, so far as my information goes, that England has a claim of about \$5,000,000,000 against nations incapable of responding, and the proposal was that we would abandon our \$10,000,000,000 loan against a solvent debtor because that solvent debtor had a bad debt of \$5,000,000,000 which she could not collect.

Mr. GARNER. Let me remark that the Yankees are good traders, and I hope their reputation will be maintained by the American Congress in not entering into any such deal as that.

Mr. O'GORMAN. I want to say to the gentleman that the older I grow the greater is my respect for the extraordinary efficiency of the British Government in diplomacy and in trade. We will all be long dead, perhaps several generations of our posterity will be dead, before we will be able to match Great Britain in diplomacy and in trade.

Now, to your question. The treaty, which, of course, is not binding on us, but is binding on Germany, England, Italy, and France, provides that the indemnity claimed against Germany shall become a first lien on all her resources. That gives the allied Governments a first mortgage on all of Germany's resources. Those who framed that treaty, applying the old principle that you can not take blood out of a stone, recognized that Germany would never be able to pay the indemnity to anybody unless she received sufficient economic aid to put her on her feet. That was realized by men who made the treaty, and they inserted a provision in that treaty that any loans or credits extended to Germany for food stuffs, or raw materials, under the approval of the allied council, would take precedence over the indemnity claim or mortgage, if you want to term it so. It is just like a man making a second mortgage, but refusing to make it until the holder of the first mortgage signs an agreement that the second mortgage will take precedence over the first.

Mr. GARNER. How long does the allied council last, Senator?

Mr. O'GORMAN. I think, so far as its terms go, it will probably last forever.

Mr. GARNER. Well, I was just wondering if the treaty provided for the continuance of the allied council?

Mr. O'GORMAN. That is my understanding of it. I do not speak with authority on that, but that is my impression. I think, so far as the language goes, there is no time limit for their operation or for their functioning.

Mr. WATSON. In accordance with your statement, then, all the allies must consent in order to make this loan, if we give it to Germany, a first lien?

Mr. O'GORMAN. Yes; the act provides that.

Mr. WATSON. What other debt does Germany owe that would come ahead of this billion dollar lien?

Mr. O'GORMAN. The only other would be Germany's responsibility for the expense of the army of occupation since the armistice.

Mr. WATSON. No other debt?

Mr. O'GORMAN. No; because that is provided in the treaty.

Mr. HAWLEY. So far as the record is concerned, we have no claims on Germany, as agreed to in a treaty with Germany, since we have no treaty of peace with them. The other allies do, and they have had their claims recognized by the signature of Germany to the treaty. The bill provides that any claim we may have for the amount for goods furnished out of the amounts proposed by the bill, shall be subject, so far as the priority of the claim on Germany is concerned, to the will of the reparations commission.

Mr. O'GORMAN. No; we begin with that. Before we give credit for a single dollar, the act provides that the War Finance Corporation, of course, acting through the Secretary of State, would obtain this authorization from the allied council. If that was not obtained no dollar of credit would be extended at all.

Mr. HAWLEY. The question I was following up to was this: What information have you to the effect that the reparations commission will look with favor upon any such proposition as this?

Mr. O'GORMAN. Well, the impression very generally prevails that they would welcome it as one—

Mr. HAWLEY. An impression is an indefinite sort of thing.

Mr. O'GORMAN. But I am only leading up to it, Mr. Chairman. You doubtless read in the newspapers about two months ago, just about the time this bill was introduced, that it was proposed that the allied Governments would make a loan to Germany of \$2,000,000,000, and that the allied Governments would take the bonds of Germany. This bill contemplates \$1,000,000,000. It is generally recognized that in England's present condition she could not float among her own people \$2,000,000,000 of bonds, and it was believed that the plan that the allied Governments then had of giving this \$2,000,000,000 of relief to Germany on Germany's bonds was to float those bonds in the United States, through the American Banks, through the House of Morgan and thousands of banks throughout this country, so that indirectly, with that plan, perhaps 90 per cent of the \$2,000,000,000 would be furnished by America, through its various banks.

Now, at first blush, you might say that that, in itself, probably would not amount to much, but the important thing is to follow. If the allied Governments made that loan of \$2,000,000,000, only a negligible part of it would be spent in America. It would be spent in England, in the British colonies, and in South America.

This brings me right back to the cardinal point, the primary point of this bill, that it is going to be a great stimulus to the development of American trade. Your farmers, instead of going back and decreasing their production, will increase it, if they have a good market. It will be so with the farmers raising cattle, and with the farmers raising cotton. Of course, it is an elementary economic proposition that the absence of an attractive market to sell the surplus will invariably lead to a decrease in production. That is the A B C, of course, of economics. No man is going to produce beyond what he needs for his own subsistence, unless he has a good market, and today, with all deference, I am not much concerned with what those figures are before you, which show certain exports during a given period. If they do show those exports, with a proper market and with ample encouragement and help to the American exporter, those exports would be multiplied and trebled, all to the lasting advantage of the producer.

Now, I take it that unless this committee is persuaded of the truth of that proposition, you will not give favorable consideration to this bill. That is the crux of this bill. I take it, much as we may sympathize with Germany and her needs, there is a sentiment in this country at the present time, and it may be a perfectly proper and reasonable one, that so far as humanitarian impulses or considerations go, we have gone as far as we should go, we have incurred an indebtedness almost equal to the entire indemnity that is now sought from Germany. We were in the war for a brief period, and we find that we have a debt growing out of the war of approximately \$25,000,000,000, not including, I think, the \$9,000,000,000 or \$10,000,000,000 that the foreign nations owe us, and which they have not paid us interest on.

Mr. GARNER. Including that.

Mr. O'GORMAN. Does it include the \$9,000,000,000 or \$10,000,000,000?

Mr. GARNER. Yes.

Mr. O'GORMAN. Well, I am glad to have the correction.

Mr. WATSON. Mr. Vauclain made the statement that there was plenty of food in Europe, and that food was being wasted.

Mr. O'GORMAN. Did he say which part of Europe?

Mr. WATSON. No; I do not recall. I am only giving his general statement, that we should not be called upon to send food to Europe. Are you in a position to contradict that statement?

Mr. O'GORMAN. I have not had the opportunities that Mr. Vauclain has had to observe conditions. I have great respect for the gentleman. I know of him and know his reputation. Anything he would say would receive very favorable consideration by me.

Mr. WATSON. Suppose we should not loan Germany \$1,000,000,000, do you think Germany is going into a state of stagnation?

Mr. O'GORMAN. No; I think that sooner or later, as a matter of self-defense, England, France, and Italy will help Germany. Germany is not dependent upon us, but she is dependent on somebody. Those who are going to get the \$22,000,000,000 or \$30,000,000,000 of indemnity will see that she is started, but I venture to predict that when she gets help from the Allies it is not going to carry with it any relief to our business interests in this country.

Mr. GARNER. Senator, I am sure that every member of the committee—I know I am—is just as anxious as you or your clients may be to capture the markets of the world, as we term it, but to save me I can not figure out how we are to export from \$2,000,000,000 to \$4,000,000,000 a year more than we import, and balance the books.

Mr. O'GORMAN. By increased production you can accomplish all that and more.

Mr. GARNER. How are they going to pay? We export from \$2,000,000,000 to \$4,000,000,000 a year more than we import. There is only about \$8,000,000,000 of gold in the world. How are the people going to pay this money? There are only two ways of paying it, one is in gold and the other is in goods.

Mr. O'GORMAN. I thought there was about \$12,000,000,000 of gold in the world.

Mr. GARNER. I may be in error, but even if it is \$12,000,000,000, if we continue each year to export from \$2,000,000,000 to \$4,000,000,000 more than we import, there must be a settlement sometime. You can not keep that thing up forever.

Mr. O'GORMAN. I only have to remind you of something you very well know, that in the organization of nature nothing can stand stationary; neither man nor government can stand stationary. It is either going forward or it is declining. We are a young, rich country, with resources unequalled in the history of the world. At the time of the beginning of this war we represented only about one-sixteenth of the population of the world, and yet we had one-third of all the national wealth of the world, and I believe to-day the figures are even more favorable to us than they were at the beginning of the war. I hope that in our lifetime Congress will never take the position that we have reached the limit of our industrial ambition, because once you do that there is going to be a recession and then we will begin to decline, as every other great nation that has ever flourished.

Mr. GARNER. I agree with you in that statement, but the thing I am trying to get you to solve is the problem: Are we to continue to loan the people that buy our products the money to buy from us, or are we to take their goods?

Mr. O'GORMAN. I do not contend that this should be a continuous policy. I think at the present time a great emergency confronts the business interests of this country, and I say it is a great emergency when the wheat industry has gone back 21 per cent below normal for want of a market, and the same thing with cattle, and the same thing with cotton. You are either going to have a prosperous condition or you are going to have a condition of paralysis. Congress must make choice. A very conservative Congress may adhere as closely as some of us Democrats used to adhere to the principles of Thomas Jefferson, leaving everything for individual initiative, but we have passed that stage.

Mr. GARNER. I hope you still adhere to those principles.

Mr. O'GORMAN. I adhere to almost everything Thomas Jefferson ever stated, but I think if Thomas were alive to-day he would agree that times have changed somewhat.

Mr. GARNER. Probably so.

Mr. O'GORMAN. With a great Nation of 110,000,000 people, with our tremendous resources, we need governmental cooperation,

especially with our export trade. No nation can have a great export trade without the cooperation of the government. Germany's great trade before the war was because the Government was a part of it. The time has gone by when everything can be left to the individual.

Now, I only want to leave this last thought with the committee. I know the committee will consider what has been said by Congressman Smith and what may be said by the men who may be interested in this bill one way or the other. I believe that this bill promises great help to the farmer and to the industrial interests generally of the United States. The export trade to-day, I know, in New York is paralyzed; and it has been said that New York heretofore was the export port of 50 per cent of the business of the country.

Now, must they recover from that condition by their own individual effort, or must they sit idly by until normal conditions prevail, which may take many years, or will Congress do now as it always has in the past, look intelligently upon a great problem, and use its judgment and patriotism, and do what is best not only for the business interests, but for all the people, and in that way receive not only the gratitude but the benediction of an appreciative and a grateful people.

Mr. HAWLEY. Senator, before you take your seat, I wish to ask you two or three questions. This bill provides that to the extent of \$1,000,000,000 we shall finance purchases for the benefit of Germany and her citizens in this country.

Mr. O'GORMAN. Correct.

Mr. HAWLEY. A considerable portion of that will be in food stuffs that will be consumed by her people?

Mr. O'GORMAN. Yes.

Mr. HAWLEY. There will be other purchases, like cotton and other similar articles, that will be manufactured by them and exported, to be sold abroad?

Mr. O'GORMAN. Yes.

Mr. HAWLEY. How long do you anticipate it will be before they could liquidate this debt to us and pay back the \$1,000,000,000, if we should adopt the legislation?

Mr. O'GORMAN. Well, there would be an element of speculation there as to the time. I would rather trust to the experience of you gentlemen. It would take some time. There are those who are predicting that in 10 years Germany will be vibrant with industrial enterprise and prosperity. I read the other day where one of her leading men asked them all to work one additional hour, and he estimated what would be accomplished in one year if each man would put in an additional hour, but, as another man said, you can not talk to a man about putting in an additional hour on an empty stomach, and there are empty stomachs there, notwithstanding what our friend from Philadelphia said on his return. I am sure that there is a great deal of poverty.

Let me call your attention, in that connection, to a brief sentence from a speech by Lloyd-George as recently as April 29, in the House of Commons. He said, "I have information from British officers that there is famine in the land"—he was speaking of Germany—"that there is famine in the land; that in some districts the people are not getting more than from one-third to one-half of the food that enables life to be maintained. They are living not only upon vege-

tables but upon sloshy vegetables. That is the trouble in Germany." Now, he added to that, "Germany is a sick nation that needs to be nourished back to health." And I think, as a humanitarian proposition, there is enough in this bill to warrant its favorable consideration by Congress, but I prefer to base the merit of the bill upon the benefit it is going to confer upon American industry.

Mr. HAWLEY. Now, Senator, the bill proposes to appropriate \$1,000,000,000, of which not to exceed \$300,000,000 shall be used in any one year.

Mr. O'GORMAN. Yes.

Mr. HAWLEY. Where do you propose to get that money? We have now a floating indebtedness represented by Treasury certificates of over \$3,000,000,000, and the Secretary of the Treasury recently stated that within 3 years we will have to meet about \$8,000,000,000 of short-term indebtedness. Now, in order to meet this obligation, should the legislation be approved, we would have to obtain from some source \$300,000,000 in a year, because they will probably ask the maximum authorization. Where will we get the money?

Mr. O'GORMAN. There are only two ways, either by taxation or bonds.

Mr. HAWLEY. Would you recommend a bond sale in this market?

Mr. O'GORMAN. No, sir; I would not.

Mr. HAWLEY. What sort of taxation would you suggest?

Mr. O'GORMAN. I would take up some articles that are not taxed enough. I would prefer to leave that to the resourcefulness of you gentlemen. When you were considering bonus legislation recently there was a multitude of suggestions as to how you could raise the money.

Mr. HAWLEY. I was about to say we have never attempted to levy a tax which has not been very strongly opposed by the people interested.

Mr. O'GORMAN. That has always been true.

Mr. HAWLEY. We have gone over the revenue laws, and we have added four new kinds of taxes and increased one tax already existing. Now, what other source of revenue is there from which we can derive funds by taxation?

Mr. O'GORMAN. I would prefer to rest upon the judgment of the Ways and Means Committee. I have a great respect for that body, and if they can not discover a way I surely can not.

Mr. HAWLEY. It would be very helpful, Senator, if you could suggest that source of taxation. We might use it for some other purpose.

Mr. O'GORMAN. I believe that with the resourcefulness and experience not only of this subcommittee, but of your colleagues on the full committee, you will have no difficulty in finding the means of providing for the additional tax. Moreover, you will remember, in connection with this legislation, and it is not true of anything else, that it is estimated that there is a surplus of \$700,000,000 in the hands of the Alien Property Custodian.

Mr. HAWLEY. Do you propose that Congress, by legislative enactment, confiscate that money and use it for this purpose?

Mr. O'GORMAN. No, I do not expect Congress will confiscate anything. I have too high a regard for Congress to think it will confiscate—

Mr. HAWLEY. How will we obtain that \$700,000,000?

Mr. O'GORMAN. I understand, according to the principles of international law, that this money collected by the Alien Property Custodian belongs to the German nationals who are the owners. The United States Government has a perfect right to hold that money, however, until the German Government pays the claim of American nationals. That claim, as I have stated, I have been informed by a responsible officer of the department, would probably not exceed \$150,000,000; it may amount to \$200,000,000. If for any reason the German Government can not pay the claims of the American nationals, amounting to \$150,000,000 or \$200,000,000, I think the power resides in Congress to then take it out of that fund which belongs to the German nationals, but taking it out, you would still have a surplus estimated—I do not pretend to be exact as to the figures—but estimated at something like \$600,000,000 or \$700,000,000.

You do not dispose of that until Congress finally disposes of it. In the peace resolution passed a day or two ago in the Senate—I do not recall how it is in the House resolution—but the peace resolution introduced by Mr. Knox provides that the money in the hands of the Alien Property Custodian will be disposed of hereafter as Congress may see fit and proper, so it is left in the hands of Congress. In any event, Congress would have to determine what is going to happen to that money, but in the meanwhile, until it is disposed of, under this bill, if this bill be adopted, you will have from \$600,000,000 to \$700,000,000 there as security for these advances. You are only going to advance \$300,000,000 in the first year. You have got security there, in that way alone, enough to cover two years' advances, not to speak of the German bonds taking precedence over the indemnity claims, under the treaty.

Mr. HAWLEY. Have we any other considerable claims, as a further offset against that balance held by the Alien Property Custodian?

Mr. O'GORMAN. What are they, Mr. Chairman?

Mr. HAWLEY. Some, for instance, connected with our troops that we have in Germany in the army of occupation?

Mr. O'GORMAN. They are being paid for now, or if they are not, the treaty specifically provides that the expense of maintaining our army of occupation in Germany becomes a first lien, even before the indemnity claims.

Mr. HAWLEY. But Germany must pay that out of some fund, and if she has no funds, we will have to come back on this for the payment of that and other claims.

Mr. O'GORMAN. That is true, but I think you will agree that when we are dealing in millions and hundreds of millions, that the expenditure in connection with maintaining the army of occupation is going to be small, it is going to be negligible.

Mr. HAWLEY. Well, I think that is quite likely.

Mr. GARNER. Senator, I want to call attention to a statement made by the Secretary of the Treasury in a letter to Mr. Fordney this morning.

Mr. O'GORMAN. Yes.

Mr. GARNER. Touching taxation and bonus, in which he points out that the floating indebtedness that must be met in three years is \$8,000,000,000.

Mr. O'GORMAN. You mean of this country?

Mr. GARNER. Of this country. The floating indebtedness we have now in the hands of the people, which we must redeem in three years is about \$8,000,000,000, coming due within three years.

Mr. O'GORMAN. Is it not estimated that we are receiving \$4,000,000,000 to \$5,000,000,000 a year by taxation?

Mr. GARNER. He further points out in this letter that it will take at least a billion dollars additional to meet the obligation made by Congress through the railroad legislation and the shipping legislation, if these obligations are to be met, and he calls upon Mr. Fordney and his committee to think very seriously on the subject of levying additional taxes to meet this obligation, regarding any additional legislation which we may make.

Mr. O'GORMAN. Do you not think that if you contribute to the prosperity of the producing elements of the country, that they will be more able to meet that additional expense?

I have a copy of this memorandum which has been read by Congressman Smith, and I will ask leave to insert it in the record.

(The matter referred to is as follows:)

EXPLANATION OF HOUSE BILL NO. 13090, TO ESTABLISH A CREDIT IN FAVOR OF GERMANY.

The first substantial effort to resume normal trade relations with Germany and to make it possible for Germany to buy raw materials from the United States, notwithstanding the great disparity in the exchange rates, was made on March 16, when Hon. Thomas F. Smith, of New York City, introduced in the House of Representatives a bill for establishing a credit in favor of Germany, a copy of which bill is herewith inclosed (H. R. 13090, Mar. 16, 1920). In its broad outlines, the bill provides that Germany may contract for the purchase of foodstuffs and raw materials in this country, and secure the payment thereof by guarantees to be approved by the reparations commission. This is in accordance with the plan of the allied economic council, which recently announced that measures would be taken to establish a credit in the allied or neutral countries in favor of Germany, which would have a priority over the reparations demands of the allied countries.

The bill proposes that the United States Government shall extend credit to Germany in the following manner:

The War Finance Corporation shall pay the contract prices of such contracts as it may approve between Germany and any person or association engaged in business in the United States for supplies of foodstuffs, raw material, etc., hereafter purchased by the German Government, in the United States and shall accept in payment of Germany's obligations under the contract the bonds of Germany, having such security and priority as is permitted by the treaty with Germany.

The bill also provides that the United States may be secured by the property in the hands of the Alien Property Custodian, after deducting the amounts necessary to compensate American citizens for losses incurred in the war. The German property held by the Alien Property Custodian is of the value of approximately \$900,000,000, and the allowable claims of American citizens will aggregate less than \$200,000,000. This leaves in the possession of the United States several hundred million dollars, which can be made available at once as a fund for the payment of the contract price of foods and raw material, or as a security for repayment to the United States of any advances to be made.

The treaty of peace expressly contemplated that in the interest of the allied countries, and to enable Germany to meet the demands of reparation, she would have to be supplied with food and raw material. Article 235 of the treaty, after providing for the payment of an amount approximately equivalent to \$5,000,000,000, before May 21, 1921, states as follows:

"Out of this sum the expenses of the armies of occupation, subsequent to the armistice of November 11, 1918, shall first be met and such supplies of food and raw material

as may be judged by the Governments of the principal allied and associated powers to be essential to enable Germany to meet her obligations for reparation, may also, with the approval of the said Governments, be paid for out of the above sum."

Article 251, of the treaty, provides that the payment for such supplies of food and raw material for Germany as may be judged to be essential, except the expenses of the obligations in respect of reparation "shall have priority to the extent and upon the conditions which have been or may be determined by the Governments of the said powers."

In view of the express purpose for which food supplies and raw material may be furnished to Germany—that is, to enable her to meet her treaty obligations—the payment of the contract price of such articles purchased in the United States or the repayment to the United States of any advances made should be a lien on the resources of Germany prior to the payment of reparations, except the expenses of the armies of occupation. Since France and England are the main recipients of the reparation due from Germany, it is probable that they will be asked to guarantee the payment for the supplies furnished to Germany. Another method by which payment may be secured is to allocate to the United States a specific portion of raw materials produced in Germany and required for our manufactures.

Substantially the bill is an extension of credit by the United States to Germany; but this credit is extended only in connection with particular commercial transactions. It is not a general credit which can be availed of by Germany as it sees fit, to purchase such supplies in such quantities and in such countries as it desires. The War Finance Corporation is given control over the amount and kind of merchandise to be purchased, and all supplies must be purchased in the United States. This will enable the War Finance Corporation to prevent the export to Germany of an excessive amount of any particular kind of food supplies, thereby producing a shortage in this country, with a consequent increase in price. Germany is in vital and immediate need of cotton, wheat, condensed milk, cattle feed, packing-house products, milch cows, horses, cattle, and minerals. She needs \$1,000,000,000 worth of them. It is on the other hand, vital to the United States to maintain an export market for these articles. Unless the farmer and producer are assured of an outlet for their surplus, production in this country is bound to decrease, with the result that prices will be further enhanced. The truth is that the export business of the United States has diminished 70 per cent in the past three months. This is in part the result of diminished needs in Europe consequent upon the termination of the war. But in larger measure it is due to the fact that conditions of money exchange are such as to prevent Europe purchasing in the United States upon a just basis and to the further fact that the available resources of Germany have been pledged to meet the payment of reparations to the allied countries. This is the obvious difficulty of the situation, and it is possible either to allow the country to drift, without policy and without effort to meet the difficulty or, on the other hand, to deal with the situation with sound business judgment, and, above all, with foresight. The present feeling in the country is that everything must be subordinated to economy and to reduction of expenditures. In so far as this relates to contribution of food supplies to needy populations and to measures of pure relief the judgment of the country is sound. Charity does not increase production, and there has been since the armistice a feeling that a large part of the idleness of European labor is due to expectancy of such measures of relief from America. But this is something entirely different from what is contemplated by the bill before Congress. This is not a measure of relief, but a business and financial measure. It is a measure necessary to stabilize industrial and financial conditions in this country to secure for our surplus products a needed and necessary market, and to continue and sustain our powers of production, so that there shall be provided the means and the wherewithal out of which taxes may be paid. It is possible to have less taxes and not have the means wherewith to pay these taxes. On the other hand, it is possible to have increased taxes and, under a wise business guidance, to provide the means for paying such increased taxes.

Disturbed labor conditions in this country are the direct reflex of disturbed labor conditions in Europe. The workmen of Europe can be put to work only if he is supplied with the necessary raw material. It is idle to demand that Europe shall produce if the greatest source of supply of raw material is closed by the stoppage of our exports. Bolshevist and radical movements, which emanate from Europe, are the product of underfed populations. The threatened spread of this doctrine to the United States can best be checked by supplying the Continent with necessary food. But this is to be done not by measures of relief, by distribution of food to populations which can not pay for it; it can be solved only by the reestablishment of the processes of normal economic life. The industrial populations of Europe must be given the material with which to work and establish themselves upon a normal basis. The

world demands that Europe shall produce, that industrial conditions shall be settled, that discontent shall be removed, and all this is required that the waste and destruction of the war may be repaired and replaced, so that prices will resume a normal level and the cost of living be reduced. It is possible for Germany to obtain grain, cotton, oil, iron, cattle and food supplies elsewhere than in the United States. And there can be no doubt that if England and France are permitted alone to finance the needs of Germany, these supplies will be bought not in this country, but in Russia, South America, and in the colonies of England and France. But it is the hope of the proponents of the bill now before Congress that the farmers, the manufacturers and the producers of the United States will realize the great importance of dealing with the situation in time. There may be those who see in the destruction of our export trade some advantage to the consumer in the temporary lowering of prices. But permanent reduction in price can be obtained only by world competition. World supply is the factor that ultimately determines prices. If we are to have no part in foreign commerce, our producers will have no market for surplus production, and in a short time there will be no surplus production. Increased production will alone produce steady employment, stability of supply, competitive conditions, and in due time a just level of prices. We must first encourage production in this country by securing equal access to foreign markets, by seeing to it that the privilege of financing the Continent of Europe shall not be used for the purpose of excluding American products. And at the same time it is vital to our interest that we shall do our share toward increasing the power of production in Europe.

Mr. O'GORMAN. I am very much indebted to the committee for its attention.

Mr. WATSON. Do you know anything about the transportation facilities in Germany? I understand that while there is plenty of food, it is impossible to transport it on account of the breakdown of the railroads and the conditions there; and that even if we did send foodstuffs, it would be impossible for them to transport it.

Mr. O'GORMAN. I do not think that it would be impossible. I can well imagine that—

Mr. WATSON. Do you know what the condition is in this country, when the ravages of war have not destroyed any of our industries or any of our ports? Do you know what the condition is in New York?

Mr. O'GORMAN. I do not know. I do not pretend to be familiar with the condition of transportation facilities in Germany, but I would be surprised if they were in a normal state, or in a very satisfactory state. I think that if they have a chance of getting foodstuffs and raw materials from this country there will be no difficulty about—

Mr. WATSON. Where is Germany going to raise the money to rehabilitate her industries and her railroads?

Mr. O'GORMAN. That will be a matter of slow progress. After every war in history it has taken a long time, sometimes longer than in other years, or other days, to bring about a healthy rehabilitation. It will come about in time. I suppose that if Germany were helped enough by this country, by the loan, her recovery would be expedited.

Of course, if she were to be left alone, no man can foretell what the progress and ravages of Bolshevism might do in all Europe, and while I am one of those who, as a rule, think that we have great enough problems within the four corners of our own country, and that primarily we should look to our own country, and that we should not be too eager to engage in foreign alliances, yet in this day of the world's history no nation can be a stranger entirely to what is happening on any part of the earth.

Mr. HAWLEY. We are very much obliged to you, Senator. Mr. Allen is present in opposition to the bill, and we will hear him now, if it is the wish of the committee to alternate the argument.

STATEMENT OF MR. WILLIAM H. ALLEN, BROOKLYN, N. Y.

Mr. HAWLEY. Mr. Allen, we have several gentlemen to be heard this afternoon, and I will have to request that you be as brief as possible.

Mr. ALLEN. Well, I do not know. Perhaps I would take an hour and a half. Is that too long?

Mr. HAWLEY. Well, 15 or 20 minutes.

Mr. ALLEN. Only that?

Mr. HAWLEY. We have a number of gentlemen to be heard, that we promised to hear.

Mr. ALLEN. Well, I am opposed to the bill here; first, because we are not able to lend the money, and, second, because Germany is not as poor as she pretends to be. Germany asks for a loan of a billion dollars. I contend that she has bonds amounting to perhaps ten times that amount in the country. I know that assertion will excite opposition, and also the assertion that it will not turn out as it is claimed. It is claimed that we have loaned abroad about \$10,000,000,000. I contend that it was simply the payment of a debt, and not a loan in the right sense.

Naturally enough, when the ordinary layman offers an explanation in opposition to all the financial authorities in the land, he is apt to excite ridicule. Nevertheless, the layman has to pay the bill, and he has a right to express his opinion on this subject.

The idea that we are able to lend this vast sum abroad is based upon the familiar assertion that our huge exports of merchandise since 1914 have changed us from a debtor to a creditor nation. We have, it is said, paid our debts to the world and loaned vast sums to Europe. This optimistic view is held by all the advocates of this loan, and as they are among the highest financial authorities of the land, it may seem rash for me to offer an opinion in opposition.

This idea that we are a creditor nation is not a new one. It was originated 20 years ago. At that time our export balances assumed large proportions, and it was claimed that we were lending large sums abroad. Jefferson Levy, the banker, said that Europe owed us at that time, in 1900, \$300,000,000. The New York Times estimated, in October, 1900, that Europe owed us \$550,000,000. The same theory was exploited in the early part of 1901. I opposed the theory because I believed that our balances were not large enough to offset our exports of merchandise, or to offset our annual foreign debts, and I expressed that opinion in letters to the New York Times and the New York World in 1900 and 1901. In the two last letters I argued that the boot was on the other leg. Our balances, as large as they were, were not big enough to offset our annual foreign debts, for interest due, etc., and hence, instead of Europe owing us, it was we who owed Europe. In the Times letter I said that the events of the next few months would verify my view of the matter. It was verified in the next two weeks. On the 22d of May, the New York Evening Post had a letter from its Paris correspondent to the effect that American bankers were borrowing large sums abroad. The report was confirmed two days later by the New York Sun.

Later on it came out that Europe owed us \$250,000,000. As the Bankers claimed that Europe owed us several hundred millions, they must have been \$500,000,000 out of the way in their estimates

of the international money situation. The New York Times was \$700,000,000 out of the way. I have the newspaper clippings here in which those letters were published. I was the only one that exploited that the theory at the time, and if there are any of the financial authorities who claim that Europe now owes us this vast sum, who estimated the situation nearer than I did, I am willing to end this argument right here.

Mr. HAWLEY. We are interested, Mr. Allen, not so much in that part of it as in the pending legislation.

Mr. ALLEN. Exactly, but my claim is—

Mr. HAWLEY. If you will address yourself to the opposition to the bill, I think that is what the committee would desire.

Mr. ALLEN. My claim is that this question, whether England or whether Europe owes us, or whether we owe Europe, is involved in the international money situation, and if we lend this money to Germany, or the goods, we are lending them the goods which we might sell to other countries, and for that reason it involves the international money situation.

Now, I want to show you that Germany—if you will allow me to proceed in my own way—has billions here. The idea that she is all liquidated, all sold out, is a fraud. The idea that Europe owes us is a fraud and a lie on the face of it. It is based on the assumption that our exports of merchandise in the last four years, averaging several billion dollars a year, have reduced our foreign debt and enabled us to lend \$10,000,000,000 to Europe, increase our gold stock to \$3,000,000,000, so that we have several billions left to foot away. I claim that that estimate is wrong. Our balances are larger and our trade balances are deceptive.

In the first place, the imports are undervalued, they say from 30 to 80 per cent, and for that reason our exports are not as large as they pretend. They are only within 75 per cent of what they claim, so that in place of having a balance of \$17,000,000,000, we have only a balance of \$13,000,000,000.

They estimate that at the opening of the war we owned Europe \$2,700,000,000. I claim that that estimate is altogether too low. In 1913 a number of bankers in New York put out an estimate in which they claimed that our annual foreign debts aggregated \$1,400,000,000 a year. If that was so, and our exports of merchandise, the excess, averaged only \$500,000,000, we were running behind at the rate of \$900,000,000 a year, and in three years we would have rolled up a debt which becomes a permanent debt of \$2,700,000,000, which was equal to the estimate for our whole debt which had been with us for over 100 years. Now, I claim that that was an underestimate.

In 1908, Mr. Francis W. Hurst estimated that England alone had securities listed on our exchange, American securities, of the par value of \$9,000,000,000. The difference between the par value and the market value was about 15 per cent, so that our debt to England at that time amounted to \$7,500,000,000. Then there were the debts of the rest of Europe to England, which aggregated \$5,000,000,000 or \$6,000,000,000 more at that particular time.

Now, then, if we were running behind at the rate of \$900,000,000 a year, I claim that in 1913 and 1915, in place of our debts amounting

to only \$2,700,000,000, they were nearly \$17,000,000,000, and that estimate, or an estimate something like it, was published afterwards in Moody's magazine.

Now, then, in their figuring they assume that we wiped out the foreign debt in 1914 and 1915. They overlook the fact, however, that there were other debts owed abroad at that time, and the first was \$450,000,000 that we owed in 1914 of short-term notes. The next was in 1915, when we owed \$860,000,000 of short-term notes. There were \$1,300,000,000 of short-term notes that had to be met before Europe or England would have to return any of her securities, and yet they claim that from 1915 to 1916, inclusive, Europe had returned a billion and a half of securities.

Well, that report was very much circulated, and if you will remember, at that time it was claimed that we ought to advance a loan to England; we ought not to force her to ship her gold in here; that if we did not there would be a panic. In reply to that, a member of the firm of J. P. Morgan claimed to a reporter of the Brooklyn Eagle that England had financed her war for a year ahead; that she had already paid all she owed at that particular point, in 1916, and had financed her war a year ahead, and then the newspapers afterwards admitted that the reports of liquidation were all utterly false and were misleading, and in one respect the Pennsylvania Railroad showed that it had 160 more shareholders on its books, foreign shareholders, than it had the year before. All these reports seem to convince me that the reports of liquidation were false in 1915 and 1916 and 1917, and the reports in those years were not as full as they used to be. That is to say, at one time you could see in the reports how many shares were sold for foreign account, and how many were purchased.

They do not make those reports any more, and so we have only the reports of the interested parties, the Wall Street financiers.

There is one thing, though an outside piece of evidence, which seems to me to show that all their reports of foreign liquidation, especially German liquidation, are utterly false, and that is the activity of the bankers who are the known agents for the English and German capitalists. You will find that the firms of J. P. Morgan and Kuhn, Loeb & Co. are as active as ever they were; in fact, they seem to be more active in the management of the railroads and our banks and our industries. The firm of Kuhn, Loeb & Co., that represents the German capitalists and which is behind this deal for a loan, is a very large controller of all the railroads from the Atlantic to the Pacific and all the banks from here to the Pacific.

Mr. SMITH. Mr. Chairman, if the gentleman will suspend for just a minute and pardon me for the interruption, I would like to remind you, if I am correctly informed, that a vote is to be taken upon a bill now before the House at 4 o'clock, and there are three or four other gentlemen here who desire to be heard.

Mr. HAWLEY. Mr. Allen, we regret that we have not any more time. It is the custom of the committee to allow witnesses who appear to revise and extend their remarks in the record, within reasonable limits, and you may have that privilege. We are sorry we can not afford you further time, but there are some gentlemen here from a long distance who wish to be heard.

(Mr. Allen submitted the following additional statement:)

Mr. Chairman and gentlemen of the committee, you have under consideration a bill to grant a loan of \$1,000,000,000 to Germany. I am here to protest against this grant. I protest against it on the ground that we are not able to lend this vast sum to any country, and Germany is not as poor as she is represented to be.

The idea that we are able to make this loan is based on the familiar assumption that our huge exports of merchandise since 1914 has changed us from a debtor to a creditor Nation. We have, it is said, canceled our foreign debts, loaned vast sums to Europe, and still have billions left to finance the world.

This optimistic view is exploited by the advocate of the loan to Germany, and as they are among the highest financial authorities in the land it may seem rash for a mere layman to oppose the arguments which they will offer here. Nevertheless the laymen have to foot the bill and their views are entitled to consideration.

The claim that we are a creditor Nation is not new. It was first heard during the boom period of 1900 and 1901. Our trade balances in those years were averaging about \$550,000,000, and as we were not receiving much cash in settlement thereof it was concluded that the surplus was being lent abroad. In June, 1900, Hon. Jefferson Levy, the banker, claimed that at that time Europe owed us \$300,000,000. In its annual financial review the New York Times, January 7, 1900, said that "something like \$500,000,000 of our money was still left on balance abroad." I had no faith in this view of the matter, and in letters published in the New York World, June, 1900, and the Times, May, 1901, I asserted that our trade balances, big as they were, were not big enough to offset our annual foreign debts for interest dues, tourists' expenses, alien hordes, etc.

Hence, instead of having a big surplus to lend abroad, we were running behind. In the Times letter I asserted that the events of the next few months would verify my view of the matter. It was verified in the next few weeks when the New York Evening Post (May 22) published a dispatch from its Paris correspondent to the effect that American bankers were at that time borrowing large sums abroad. This dispatch was confirmed two days later by the New York Sun. Later on it came out that we owed at that time some \$250,000,000. Hence, the bankers and financial editors must have been from \$500,000,000 to about \$800,000,000 out of the way in their estimates of the international money situation; and my estimate was that much nearer the truth. My idea that we were nursing a deficit instead of a surplus has based on the fact that in addition to exports of merchandise, we were also floating large blocks of securities abroad without getting any cash in return.

Now, the financial history of the past 18 months will show that this claim that we are a creditor nation has even less basis to-day than it had 20 years ago.

WHO OWNS OUR GOLD?

During the latter part of 1915 the Miners' Association appealed to the Government for a bonus to stimulate the production of gold. The matter was referred to a committee, of which Mr. Albert Strauss of the Federal Reserve Board was chairman. In their reply rejecting the appeal, the committee stated that the ending of the war had removed all necessity for artificial stimulation of the production of gold. The country could look forward to an early contraction of credits, a lowering of prices, an easy money market, a free gold market, and a gold reserve that would perform all of its normal functions. Mr. McAdoo, Secretary of the Treasury, approved the report, and added that the gold standard was now secure. His successor, Hon. Carter Glass, expressed the same sentiments.

The events that followed show that these great lights of the financial world had a very poor grasp of the money situation. Instead of a contraction of credits there has been the greatest expansion in our history. Instead of a lowering of prices they have been growing higher. Instead of a free gold market, every country but our own forbids the free movement of gold. Instead of the gold standard being secure, it has been practically abandoned by every Government except the United States, and even here there has been much talk of its possible abandonment. Instead of an easy money market, call loans rose to 30 per cent in June, 1919, the bank reserves showed the first deficit since the Federal reserve system went into effect, and there was a severe panic in Wall Street. On November 12 call loans rose to 30 per cent. "The effect," says the New York Sun, "was one of the wildest days Wall Street has ever witnessed, with breaks in stocks rising as high as 63 points." In January and February of 1920 the money situation, according to the New York Evening Post, was the worst for these two months in 50 years.

Now, the sole cause of this situation—the high money rates and panics—was the export of \$300,000,000 gold in 1919. As the Evening Post says:

"The simple facts are that money is in very strong demand, while the supply is relatively low. The country has for a year past been exporting more gold than it has imported, and it has been increasingly difficult to maintain Federal reserve bank reserves."

(It is of interest to recall here that it was just about that time that Sir George Paish came here from England to tell us that we had too much gold. It was a source of danger, and in order to avert that danger we should lend two or three billions to Europe.)

The Post's explanation of the financial situation proves that Messrs. McAdoo, Glass, and the bonus committee were grossly ignorant of international money conditions at the close of the war. They underestimated the foreign demand for our gold, and they overestimated our ability to meet that demand. They didn't know that Europe could take that much gold from us when she already owed us \$100,000,000; and they didn't know that the export of \$300,000,000 would have caused such a serious effect when we had the largest stock of any country in the world.

This belief in our gold wealth is based on the assumption that all of the yellow metal which came here during the war period was in settlement of debts—in payment for commodities. But that is not true. A good part of it came here for investment purposes, or for safe-keeping. Thus, the Evening Post (Aug. 28, 1915) says:

"But what has never been seen before in economic history is the flow of capital from the outside world. The United States has become the one secure market for the investment of capital."

This foreign gold kept coming here during the whole of the war period. Some foreign countries acquired credits here from exports of merchandise to this country, or from investments of their capitalists in America, or from the earnings of their laborers temporarily residing here. Thus Japan has at least \$500,000,000 in credits accruing from sales of goods and other sources. England has \$200,000,000 invested in cotton loans. British-Canadian banks have \$189,000,000 invested in call loans at New York, and Argentina has credits here accruing from exports of merchandise amounting to \$75,000,000. Then, there is the item of alien bonds which Director Stewart, of the Department of Labor, estimates at \$4,000,000,000. The National City Bank circular thinks that this estimate may be an exaggeration, but even if it is only one half that sum, say \$2,000,000,000, when added to these other items, it makes the total foreign credits here amount to \$2,964,000,000. All of which constitutes a lien on our gold stock. Now, on June 30, 1919, our total stock of gold amounted to \$3,112,000,000. But \$426,000,000 of this amount is supposed to be in hand-to-hand circulation, whereas it is safe to say that there is not one-tenth of that sum outside of the banks. The most of it has been carried off by aliens. All the gold we can be sure of is that which is in the Government vaults and the depository banks, which, on June 30, 1919, amounted to less than \$2,700,000,000. That is nearly \$300,000,000 less than the total foreign credits here which call for payment in gold. In other words, on June 30, 1919, we didn't have gold enough in the country to pay our debts. We were doing business on borrowed money. And now we are asked to give Germany a loan of \$1,000,000,000.

A singular fact about these foreign credits here is that Treasury officials seem to know nothing about them. There is no allowance for them in their estimates of our stocks of gold. I submit that this committee ought to look further into this matter.

OUR FOREIGN DEBTS UNDERESTIMATED.

Next we come to this claim that with our big trade balances we have been enabled to lend \$10,000,000,000 to Europe. A look at the facts will show that the claim rests upon a very weak basis.

It rests in the first place on the assumed correctness of an estimate given out by Mr. E. F. Lore and certain railway bankers which placed our permanent foreign debt in 1915 at \$2,704,000,000. The debts were in the form of railroad bonds, stocks, and mortgage bonds. Foreign investments in our industrial and other properties added possibly \$1,000,000,000 more to the debt. Now in 1908 Mr. Francis W. Hirst, editor of the London Economist, found that American shares listed on the London Stock Exchange had a par value of \$9,000,000,000, or a market value of \$7,500,000,000. The value of our securities in other countries were fully \$4,000,000,000. This permanent debt was being constantly enlarged by our annual foreign debts. Prior to the panic of 1907 these annual debts were estimated as low as \$250,000,000. But after that crash, facts began to leak which showed that this estimate was very much too small. T.

England.....	\$9,000,000,000
Germany.....	5,000,000,000
Other countries in Europe.....	3,000,000,000

Total.

\$10,000,000,000 to it in the last year, that in place of other countries owing us \$10,000,000,000, the meaning of which is that we have received \$10,000,000,000. Our permanent debt abroad which amounted to about \$12,000,000,000 has been reduced to about \$5,000,000,000. Our alleged debt to the United States for the war has been reduced to \$17,000,000,000 in 1915 has been reduced to \$10,000,000,000 by the payments of back debts. Our alleged loans to Italy, for example, have been merely money orders from Italian laborers to Italy, for example, and our alleged loans to England were of the same nature. The United States has not lent us a cent. The only money we have borrowed is from J. P. Morgan's firm declared that England owes it \$16,000,000,000. In 1914 Secretary McAdoo found that we owed the United States \$150,000,000 due on short term that had been requested for the war for one year ahead (October 1914) and that we had been requested for \$150,000,000 more that we owed. In 1915 it was learned that we owed the United States \$150,000,000 more on short term notes. We paid these debts to the United States for the purchase of war supplies, etc., to England. On several occasions we have borrowed money from the income on our investments in England that Great Britain owes us. We have borrowed money from the income on our investments in England that Great Britain owes us. This was a very exact truth, and hence it follows that all that we have borrowed about Europe having withdrawn her investments from this country is utterly false.

FOREIGN LIQUIDATION.

FOREIGN LIQUIDATION

The claim that, as a result of the war, the amount of foreign capital now invested in the United States is over \$1,000,000,000 and has been disapproved without going into any detailed investigation.

I believe that bankers that had most to say about it afterwards are satisfied that in 1918; but I have no such liquidation had been grossly exaggerated. Indeed, some of them reported instances of increased investment in our stocks and properties.

During the five years following the war, the investments of J. P. Morgan, Kuhn, Loeb & Co., and other international bankers, who usually deal for foreigners in the United States Government bonds, totaled more than \$1,000,000,000. This does not include the investments belonging to foreign capitalists or banks. I believe that since this enormous liquidation since 1914, it has reduced us to a change in the control of our railroads and other properties.

misrepresent financial conditions it has been proved that the same parties did thus grossly misrepresent the financial conditions 20 years ago. They also grossly misrepresented the movement of securities at that time and in 1893. They claimed that the outflow of gold which caused the panic in 1893 was due to the return of securities by foreign investors who had become alarmed over our silver policy. In 1901 they claimed that our failure to import gold was owing to the return of securities from Europe. It is proved later on that in both cases the return of securities was a result of a general increase in the value of securities. In our statement we submit that the great bankers who exploited these false claims years ago are not reliable authorities on the present international money situation. . . . And the facts here set forth fully justify this conclusion.

The activity of these international bankers in the control of our properties is, as before stated, conclusive proof that foreign capitalists still have an extensive grip on our properties. For if liquidation had reduced foreign holdings to only \$1,000,000,000 how could they still dominate railroads, banks, industrial, and other properties worth 30 times that amount?

Then, there is this foreign lien on our stock of gold. The only rational solution of that curious fact is that we are still a borrowing Nation. The tight money conditions and panics due to the outflow of gold sustains that conclusion. As to our alleged loans abroad, the failure to get any interest money on such transactions, and the depreciation of the American dollar in Europe, sustains the conclusion, already reached, that such transactions were disguised payments of back debts.

Under these circumstances it is evident that we are not able to lend money or credits to Germany or any other country. With our money market already drifting toward the danger point, and with a great volume of paper currency based on borrowed gold, it would be madness for Congress to grant a loan to a government which is liable to be overturned at any time.

overnight at that time. It is not possible to be a loan of credits, not money, and that it will be used to buy raw materials in this country should have little weight with this committee. It means an extension of credit at a time when our whole credit system is already extended. The loan is to be used to buy raw material. But we have no raw material to spare. All that we send abroad adds to the cost of what is left for our own use. If, for instance, the credit is used to buy a million pounds of American wool, the effect will surely be to increase the cost of the goods produced by American manufacturers who use wool. It will also increase the price of clothing. Besides, if we have any raw material to export we might sell it to other countries that would pay for it with the gold we so much need to avert the financial disaster that now menaces our commercial and industrial prosperity.

Mr. HAWLEY. Mr. C. E. Heinemann, the secretary of the National Live Stock Exchange in Chicago desires to be heard in favor of the bill.

STATEMENT OF MR. C. E. HEINEMANN, SECRETARY NATIONAL
LIVE STOCK EXCHANGE, CHICAGO, ILL.

Mr. HEINEMANN. Mr. Chairman and members of the committee, my appearance here is not inspired by Kuhn, Loeb & Co., or any of those gentlemen mentioned by the preceding witness. I am appear-

ing in the interest of the live-stock producer, and in his interest only. I fully concur in what Senator O'Gorman said as to the effect of this bill on industry in general and on agriculture in general, but I believe that the live-stock producer finds himself in a more embarrassing predicament than is the case in a great many other instances. The question of finding a market for the products of live stock produced in this country has reached a point where the foreign exchange situation will not permit the American packer, through whom he must market his live stock, to market this product with any certainty. It is true that he can find a market in the European countries if he can afford to take the European money at its present deflated value.

This situation is the natural result of the foreign exchange situation which crept out and was first brought to our attention forcibly last fall, upon the return of some of the emissaries of the American packers who had gone into Germany for the purpose of investigating, and I would like in this connection to attach a memorial which President Brown addressed to all Members of Congress, under date of September 12, 1919, calling their attention to the exchange situation and pointing out the danger that would result unless some measure was taken to correct that situation as it then existed. This petition, I believe, is perhaps familiar to all of you gentlemen. With your permission I will insert it in the record without taking up your time to read it.

(The petition referred to is as follows:)

PETITION OF THE NATIONAL LIVE STOCK EXCHANGE.

[By E. C. Brown, president.]

CHICAGO, September 12, 1919.

To all Members of Congress:

A grave situation confronts the American farmer, and unless prompt action is taken by the Congress of the United States thousands of farmers and live-stock producers will be financially ruined. This condition is already with us and is becoming increasingly dangerous as time passes. I refer to the present state of foreign exchange and the constant depreciation in European money values.

The Hon. Herbert C. Hoover, in his recent testimony before the congressional committee investigating war expenditures, pointed out the imminent danger, in the following statement:

"An extremely dangerous situation will result in case the United States Government does not assist producers in finding outlets for their goods. During the war American products of all kinds increased threefold. Unless there are permanent markets for these products a terrible reaction is inevitable, counteracting all the production incentives, which caused the present efficiency. The American Government must intervene by granting credits to the nations needing foods."

"American farmers are entitled to the greatest consideration. After Government stimulation their production must be guaranteed markets."

"Agricultural production in all the European nations is nearing a normal state, but the countries which have emerged from the war will need American financial assistance for another 18 months."

"We are coming into a flood of production of foodstuffs in the northern hemisphere and again will have a great surplus in the United States. If, in the meantime, Europe has not found credits to purchase the coming winter's supplies, we are likely to have a glut and prices may fall below the cost of production to American farmers."

"Our farmers have never before had occasion to concern themselves with the matter of foreign exchange, but present conditions must inevitably bring this subject home to them. The exporter of American farm products is facing the future with great uncertainty, and well he might."

A study of current exchange rates as of Friday, September 12, 1919, showed the following:

Country.	Monetary unit.	Normal Value in United States money.	Value in United States money Sept. 12, 1919.	Country.	Monetary unit.	Normal Value in United States money.	Value in United States money Sept. 12, 1919.
Austria.....	Crown.....	Cent. 20.3	Cent. 2.00	Jugo-Slavia.....	Crown.....	Cent. 20.30	Cent. 2.15
Belgium.....	Franc.....	19.3	11.80	Netherlands.....	Florin.....	40.20	37.00
Czechoslovakia.....	Crown.....	20.3	2.15	Norway.....	Crown.....	26.80	22.85
Denmark.....	Mark.....	26.8	21.55	Poland.....	Mark.....	23.60	3.75
Ethiopia.....	Mark.....	19.3	4.20	Portugal.....	Escudo.....	108.00	65.00
France.....	Franc.....	19.3	11.77	Roumania.....	Lei.....	19.30	4.35
Germany.....	Mark.....	25.8	4.00	Serbia.....	Dinar.....	19.30	8.20
Great Britain.....	Pound sterling.....	496.65	416.00	Spain.....	Peseta.....	19.30	19.00
Greece.....	Drachma.....	19.30	19.60	Sweden.....	Crown.....	26.80	24.35
Italy.....	Lira.....	19.30	10.30	Switzerland.....	Franc.....	19.30	17.90

Conditions in some countries have reached the point where wage increases mean little or nothing to laboring men since the increases are paid in depreciating money. German coal miners agreed to a longer day not for an increase in pay but provided they were given 2 pounds of land, oleo, or other edible fats which their money can not buy.

Foreign labor has never received the wages paid our workmen. Our mounting prices and wages to enable our people to meet them have brought our standard to a point Europe can never hope to attain. It stands to reason that their wages even if accepted at face value would not have the purchasing power to provide more than the mere necessities of life. Convert the purchasing power of this money at the present rate of exchange into American food and it is not to be wondered that food is more acceptable than money.

It has come to the point where many of the European countries can not possibly finance the purchase of foods notwithstanding that the specter of starvation or its near "relative," malnutrition, stalks abroad in their land. Our farmers have responded to the appeals of our Government and have produced foodstuffs in abundance, and this is now available for sale and distribution.

This food has been produced under the handicap of higher wages and shorter hours and the farmer justly expects his efforts to be rewarded by receiving a price commensurate with the cost of production. In the face of these conditions at home and abroad one or two things must occur, viz:

1. American prices must be reduced to a point which will enable Europeans to purchase our products.
2. American products must be consumed at home, and the surplus of production will certainly lower present prices to a point where the producer must suffer tremendous losses.

As pointed out by Mr. Hoover, the only apparent solution is for the Congress to arrange for the establishment of a fund which shall be available to protect the credit of the buying countries. I do not advocate that this be turned over to them to expend in increasing their military equipment, but that it shall be made available as loans upon proper security and solely for the purchase of American products and, particularly, American farm products.

This condition will automatically adjust itself as soon as the European countries reestablish their agricultural and industrial enterprises and once more resume the exportation of products. Exchange invariably adjusts itself to the balance of commerce, and when this point is reached the stabilization fund could be retired and normal conditions restored.

There can be no doubt but that the present uncertainty and hazard of financing is largely responsible for the recent slump in our live stock markets. The time of our heavy fall and early winter runs is at hand, and the packers must exercise care in filling their cellars—as they must do in the season of heavy runs—with high priced meat which can not later be sold except at a tremendous loss.

This is a matter which deserves immediate attention, and I respectfully urge upon all Members of Congress the great importance of taking the necessary action to stabilize the foreign exchange before the disastrous effects are further felt by our live stock producers.

Mr. HEINEMANN. On April 9 President Brown wrote a letter to the members of the executive committee of the National Live Stock Exchange, inclosing a digest of the bill H. R. 13090, and suggested that they take it up with their Members of Congress, and urge early action thereon. With your permission, I will file that letter in the record.

(The letter and digest referred to are as follows:)

THE NATIONAL LIVE STOCK EXCHANGE,
Chicago, April 9, 1920.

To members of the executive committee:

Your attention is directed to the attached digest of a bill now before the House of Representatives, looking toward the proper financing of our trade with Germany.

This action was urged by the National Live Stock Exchange as long ago as last September in a memorial to Congress, copy of which I am inclosing herewith.

I strongly urge that each exchange give prompt consideration to this proposed legislation and if they agree to the principles thereof take up with their Members of Congress urging the importance of early action.

I am convinced that some method of this kind must necessarily be adopted before our export trade can be restored owing to the present unstable foreign exchange situation.

It is my further belief that members should urge upon their shippers the necessity of getting behind this legislation.

Please advise us as promptly as possible just what action will be taken.

Very truly, yours,

E. C. BROWN, President.

DIGEST OF BILL, H. R. 13090, INTRODUCED IN THE HOUSE OF REPRESENTATIVES BY CONGRESSMAN SMITH OF NEW YORK MARCH 16, 1920, AND REFERRED TO THE COMMITTEE OF WAYS AND MEANS.

The bill purposes amending the War Finance Corporation act so as to provide as indicated below:

Section 22 empowers and authorizes the War Finance Corporation to pay to any person, firm, corporation, or association in the United States the contract price of raw materials, supplies, and food purchased by the German Government, the loans and other obligations issued by Germany to be accepted by the Government and to bear interest at 6 per cent. This arrangement is subject to the following provisions:

1. That the War Finance Corporation shall have approved the contract of sale in all respects.
2. That the allied Governments shall have approved the supplies as essentials.
3. That the German obligations shall take priority over all German obligations except that necessary to pay for the army of occupation.
4. Advances of the corporation shall not exceed \$300,000,000 for any one year nor \$1,000,000,000 in the aggregate.
5. Terms and methods of enforcing payment of the German obligations shall be established by the reparation commission, subject to the corporation's approval.
6. The German obligations shall be a lien against German property now in the hands of the Alien Property Custodian.
7. One billion dollars or so much thereof as may be necessary is appropriated for making such payments.

Mr. HEINEMANN. At the same time he took it up with President J. R. Howard, of the American Farm Bureau Federation, inclosing a copy of this bill and a copy of this petition, and asking his views as to whether or not he thought the American people should be back of this. I am sorry I came here without Mr. Howard's reply, but he stated that he had given this considerable study and believed that the time had now come when the American farmers should have the assistance of this Government.

Mr. HAWLEY. Who is Mr. Howard?

Mr. HEINEMANN. Mr. J. R. Howard, of Columbus, Ohio, is the president of the American Farm Bureau Federation, with a membership of approximately 1,000,000 members.

As far as the price of live stock is concerned, meat is the one food in this country that somewhat nearly approaches the prewar price. Day before yesterday, on the Chicago market, which is the largest market in the world, and to a certain degree affects the price on other markets, hogs sold for a lower figure than they had been sold for in three years. Now, that is due to a number of conditions, but one of the principal, and to my mind the impelling, reason for that is the inability of the American packer to sell his product abroad.

That thing is being reflected daily in the prices on the markets of the country, and not only are the live-stock producers, who have produced this stuff under pressure and the urgent call of the Government, being compelled to sacrifice this stuff for somewhat near the prewar price, but they are having to pay these inflated—I will not call it exactly inflated—but these increased prices for wages. Their feed is up, pasturage is up, freight charges are up, and every factor and element that goes into the cost of their product is up; so notwithstanding the increased cost of manufacturing this stuff, they are paid only a percentage of the cost. The men on whom they must depend for their market can not handle it profitably so that they in turn, can pay that price, and have it return them a profit.

Now, so far as the figures which the Congressman read referred to the meat exportations, I do not believe that they will give you quite the true reflection of the actual situation. During the war period a greater part of the exports, as you know, went to the allied countries. Now that their importation of our product has practically ceased, they are looking elsewhere for their supplies. England, who was, I believe, our largest purchaser, can get her supplies to better advantage through Australia and New Zealand; so that she is practically out of our market for meat products. Germany before the war was not a heavy buyer of American meat products. That was due to her internal situation and due to the influence of the agricultural people in that country, which caused them to enforce certain import restrictions that kept them out of our market, except as to certain fats and oils. It is our thought that a bill of this kind, a credit arrangement of this kind, will perhaps enable us to get into the German market, not only at the present time, when she is in such dire need of these products, but will establish a basis for future dealing and give us a permanent foothold in that country for the future.

Now, as to the question of the inadequacy of the revenue to meet the present and future needs, so far as taxation is concerned, there is a thought to which I think we should give consideration, and that is if we do not at present encourage the American farmer and the American live-stock producer, we are going to reach the point very shortly when your present Federal tax law will not return to you anything like the revenue that it is now returning. I refer particularly to the excess profits section of it. Obviously, if you have no excess profits, you will have no excess profits tax, and I believe that should be an incentive to keep the producer healthy, not only the farmer, but all producers.

Mr. WATSON. Would you say that live-stock production is increasing or diminishing now?

Mr. HEINEMANN. Live-stock production, unfortunately, is decreasing very materially.

Mr. WATSON. And so is the production of pork.

Mr. HEINEMANN. In my country it is very marked.

Mr. WATSON. There are thousands and thousands of acres that have not been plowed this year because the farmer can not find the men. The farmer has had to pay \$5 or \$6 a day for a man to plow, and consequently the farmers will not plant the grain and wheat.

Mr. HEINEMANN. The same condition exists all over the country.

Mr. WATSON. Therefore the increase of live stock must be a very large percentage!

Mr. HEINEMANN. There are factors, however, that have an effect on the reduction of live stock production that are not felt in the other products of the farm. I refer particularly to the attitude of the bankers, due to the Federal Government restricting loans. As you know, the production of live stock is in a large measure dependent upon the ability of the producer to borrow money to finance his operations, and under the present restrictions, the country banks and bankers, upon whom he must depend for these loans, are so situated that the more they loan the man out in the country that produces the higher the rate of interest they must charge him. That is an unnatural situation, and I think it is one which will be corrected, but I simply give that to you as an example of the condition which is seriously hindering the production of live stock in the live-stock territory.

I do not think we ought to combine or couple the situation, so far as the export of live stock is concerned, up with another handicap such as they are now laboring under. They are doing their best. I do not think there is a live-stock producer in the country who is willingly letting down on his production. They are trying by every possible means to finance their operations and to go ahead and keep up this production. They are doing their best to do that.

Mr. WATSON. Will the production be sufficient to supply our own demands and leave something to be sent abroad?

Mr. HEINEMANN. So far as live stock is concerned, if they could keep up their immediate ratio of production we would have sufficient for all of our local needs and to amply supply the needs of the German nation, as is contemplated in this bill. As I stated before, the other allied countries are not large importers of our products in normal times, but there is no reason why we should not take advantage of a chance to develop this trade at this particular time when we need it so badly.

I do not believe, Mr. Chairman, I can add anything to what has already been said. I thank you very much.

The CHAIRMAN. We are very much obliged to you, Mr. Heinemann. Is there any other gentleman who wishes to appear in opposition to the bill? Mr. Smith, have you any other witness?

Mr. SMITH. Senator O'Gorman, is there any other gentleman who cares to be heard in favor of the bill?

Mr. HEINEMANN. Mr. Chairman, may I have permission to file the letter from Mr. Howard that I referred to?

Mr. HAWLEY. Yes.

STATEMENT OF MR. A. M. LOOMIS, REPRESENTING THE NATIONAL DAIRY UNION AND THE NATIONAL GRANGE.

Mr. LOOMIS. Mr. Chairman, I represent the National Dairy Union, and, by proxy, the National Grange. Prof. T. C. Atkinson, the Washington representative of the National Grange, is in the hospital and is unable to be here to-day, as he has been requested, but he would be glad to be advised when he can come before the committee and address it on this subject.

The speakers that have preceded me have gone very fully into the farming situation here, and I just want to add a word or two. The dairy industry of this country is facing a very serious situation, not only by reason of the curtailment of exports, but by reason of the importation of European made butter, which has been coming into this country in large quantities during the past few months or weeks. It seems to me that while I can not speak of this bill, and I do not want to appear here in that capacity, I do want to speak with emphasis of all that has been said before as to the necessity of taking care of the export trade in agricultural products in the coming year or two, and, particularly because of my representation of the dairy interests, of the necessity for taking care of the export trade in condensed milk, which has been shut off almost entirely within the past few months, and of assisting the Central European countries so that they may again absorb European made butter which is now coming into this country in competition with our own.

I would emphasize and indorse everything which the previous speaker has said relative to the emergency which faces the live-stock producers of this country. As to whether or not we are capable of taking care of this trade, certainly as to pork products we can. Pork is practically a seasonable product. It is only a short proposition to increase the supply of American pork.

Mr. WATSON. From what countries is butter coming?

Mr. LOOMIS. Holland and Denmark. There have been two or three shipments of 5,000,000 pounds that have been received in New York within the last few weeks.

Mr. WATSON. If the people are starving in Europe, why do they not feed their own people instead of sending it over here?

Mr. LOOMIS. It is a question of money, a question of the ability to buy. Danish butter is on sale in Washington to-day, or has been for the past two or three days. It may not be to-day.

Those are just the points to which I wish to call attention, without taking any more of your time.

STATEMENT OF MR. GRAY SILVER, WASHINGTON REPRESENTATIVE AMERICAN FARM BUREAU FEDERATION, 1411 PENNSYLVANIA AVENUE, WASHINGTON, D. C.

Mr. SILVER. I have not had any opportunity for any study of this subject, but during the forenoon I received a wire from Mr. Howard to the effect that the view of the federation is that business with Germany should be resumed at the earliest opportunity, and that this bill is one method of doing it, possibly the one method. The farmers are suffering from the lack of proper international relations

with Germany, the same as the live-stock people, and they would like to see that adjusted.

They have the big responsibility in this food production, but unless food production is properly planned, properly provided for, they can not be on a business basis. I think that is all, gentlemen.

STATEMENT OF MR. T. J. CORBETT, PRESIDENT SEABOARD CO., 59 PEARL STREET, NEW YORK CITY.

Mr. CORBETT. Mr. Chairman, I was attracted to the falling off of exports shortly after the strike that was held in the port of New York extending from October to December. The business that had been congested during the months of October and November was quickly cleared up, and by January 1 there was very little export business. It dropped so suddenly that several of the stevedores that came into my office asked me to look around and see what the trouble was, so I made a review—in other words, I went through the port of New York to almost every steamship dock and questioned the superintendent of docks, and once I interviewed Mr. O'Connell, the head of the International Longshoremen's Union, and several of the delegates, and also the secretary, and I found out about the middle of February that there was very little export trade. I did not myself know the reason why but I interviewed a lot of export commission merchants, and I found that due to the falling of the exchange on the English pound, it paid the foreign governments to purchase all their materials from England, and England, having stopped purchasing goods from America, the export trade suddenly dropped, and I have found out that up to yesterday the only export trade we have to-day in the United States is the tail ends of all old contracts, and most of that is in coal and automobiles. I can verify that myself in my line of business, which is the shoring of cargo.

To-day the merchant in Europe is buying coal at what we call the c. i. f. price. He pays the insurance and freight here on bill of lading. The rate, as I understand it, to Genoa is from \$28 to \$30. If he obtains 5,000 tons of coal, he pays \$1,500,000 for it right here, which is considered as the export price. The price of coal to-day is about \$8.25.

Now, that is so with everything. Everything is paid for on bill of lading here to-day, which takes in delivery on the other side.

I merely came here to certify as to the extent of the export business. It stands just to-day where it did yesterday and the month before. Something must be done to get it back. We can not take these Shipping Board ships and send them to all the ports of the world, and get one cargo one way. That is the trouble to-day. We must have the cargo both ways, otherwise your merchant marine will be tied to the docks. The only logical proposition, as I see it, to increase our export trade to-day, is this bill before us. I do not know how much can be allowed for this, but it will pick up business. There is no export business, virtually, leaving the United States. There are a few ships that went over to Baltimore and Philadelphia from New York, to get business. In normal times they would be filled up in a week with cargo. Now it takes from five to six weeks to fill them up.

May I include this letter in the record?

Mr. HAWLEY. Yes.

(The letter referred to is as follows:)

SEABOARD CO., SHIPWEIGHTS AND SHIP JOINERS,
New York City, March 26, 1920.

MESRS. O'GORMAN, BATTLE & VANDIVER,
37 Wall Street, New York City.

GENTLEMEN: I am writing this letter, in the interest of over 3,000 members of our produce exchange, our cotton exchange members, our farmers, planters, exporters, merchants, working men and women, and the American public, to assist in preventing a pending disaster to the United States of America.

If England is permitted to supply Germany and European countries generally with foodstuffs and raw material (with money supplied to her by America), she, together with her colonies and her African possessions, will in another few years rule the sea and rule the world and deprive the United States of the larger portion of its export trade.

The people of the world are now facing a situation which is unparalleled in history.

The war left the countries of Europe in a deplorable condition, both financially and economically.

Some of these countries have been aided by charitable gifts, which, at best, can not bring permanent relief, neither can gifts of any kind furnish raw materials with which to turn out finished products, so that the Governments of such countries may meet their financial obligations and establish good government and peace.

England is now seeking a world's banking conference, but in so doing she says she desires it to be distinctly understood that she will not put up a single dollar with which to buy goods in America.

She further states that she does not desire to borrow any money of the United States for herself, but she fails to inform us that she intends to make direct or indirect demands on America for money with which to supply foodstuffs and raw materials to Germany and other European countries from her colonies and African possessions and firmly establish valuable trade relations with those countries to the exclusion of the United States of America.

England has already shipped over \$100,000,000 worth of cotton from Egypt to our New England States and further shipments of cotton are en route, in addition to her cotton, she is, and has, been shipping to this country, lamb and mutton from her Australian and New Zealand colonies, which shipments of cotton, lamb, and mutton were made by England to unnerve our farmers, merchants, and exporters, and to serve her ends both politically and financially.

Our American exporters have every cold-storage warehouse in New York City and those for 40 miles adjacent, filled with provisions of various kinds waiting in vain for export orders from European Governments, which orders do not materialize.

This state of affairs means disaster to America if our export trade is to remain practically dead, as it is at this writing.

You all know that England has practically discontinued buying foodstuffs in the United States, which, together with the discontinuance in buying by European countries, resulted in the export trade from the port of New York falling off 75 per cent during January, February, and into March of 1920, notwithstanding report to the contrary.

For instance, on the 1st day of January 60,000 dock men were employed, and on the 1st day of February only 15,000 dock men were employed and all other employees in proportion. (This statement is given out by the Dock Laborers' Union.) How long can this state of affairs continue without serious result to our laborers, to our farmers, and to the citizens of this country?

High authorities say that if exports cease, that surplus food products now in storage will be thrown on the market and the high cost of living will be reduced; which statement is true, so long as such surplus products last and provided they are thrown on the market; but these high authorities have failed to warn our laborers, our farmers, our planters, our manufacturers, our working men and women, and our Government, that when the planters and farmers of the United States of America learn that exports from the United States to foreign countries have materially decreased, with no provision made to bring those exports back to normal, that these planters and farmers may refuse to plant seed and refuse to fatten cattle, sheep, and hogs for market to any great extent, which means in a very short time that a steak now costing, for example, 50 cents a pound may then cost well on toward \$1 a pound and bread that now costs 10 cents a loaf may then cost 20 cents a loaf, and all other food products may be advanced in price in proportion.

It further means that our manufacturers and our packers and our merchants will be forced to reduce their working staff by perhaps one half and that the other half

may receive only one-half the wages they now receive, due to oversupply of labor; it means that our railroads, our ships, and everything else must reduce labor accordingly.

If these things come to pass, viz. food twice as high as it is today, one-half of the working staff of the United States without any kind of employment, and the other half receiving only a portion of the wage which they now receive, what will be the state of affairs in the United States? Can the Government then act? And if so, what can it do?

Germany during the last 20 years before the war, was one of the largest buyers of foodstuffs produced in this country and if action is taken by our Government to grant a credit to Germany of \$1,000,000,000 (now asked for in our Congress), then our export trade will be revived to such an extent as to warrant our farmers to not only maintain, but to increase production, which will also standardize the price of foodstuffs to our public, in proportion to the cost of production, and labor will work in full force as usual.

Germany's purchases of cotton, phosphates, minerals, shoes, condensed milk, corn, cattle feed, packing-house products, live cattle, milk cows, hogs, sheep, horses, and merchandise of various kinds, will better the condition of nearly every farmer and exporter and citizen in the United States, because this trade with Germany means the life of Germany, the life of the United States, and the life of the world; also the stabilizing of exchange in other countries, the settlement of peace in Russia; because Germany is the key and the only key to central Europe, and when we make peace with and grant credit to Germany, extending over a period, so that government can satisfy its people of a fixed American credit, thus assisting it to establish a sound and lasting government, it really means that this one act alone will bring peace to practically every country on earth.

This is not a loan in the ordinary sense as the United States Government now has in its hands eight or nine hundred millions of German money collected by the Alien Property Custodian which amount will be retained as security for the proposed credit. It is estimated that American claims against this fund will not exceed \$150,000,000.

I have been and am doing much work to benefit our farmers, of which I think you are aware.

One man can not go very far without the cooperation of his neighbors, therefore I now ask you to use all the force at your command to satisfy our President, our Treasurer, the Hon. David L. Houston, our Senators, and our Congressmen that our export trade, our farmers, and our people must be protected; and in my opinion, as matters now stand, the only way to do it is for our Government to grant a credit to Germany of \$1,000,000,000 as provided in the Smith bill, provided all the money is to be spent in this country for the articles and goods mentioned in this letter, under the supervision of our government authorities.

I have obtained a copy of the Smith bill, and am inclosing it in this letter.

Yours, faithfully,

SEABOARD CO.,
T. J. CORBETT, President.

STATEMENT OF MR. R. D. BOWEN, DIRECTOR REPRESENTING AGRICULTURE, MISSISSIPPI VALLEY ASSOCIATION, DALLAS, TEX.

Mr. BOWEN, Mr. Chairman, as director representing agriculture, of the Mississippi Valley Association, the question of export and financing exports to European countries in distress, and especially as it relates to farming products and raw materials, grain, woollens, and cotton furnished by the farmers, we are very vitally interested, and we believe that too much consideration, and promptly too, can not be given that question. It will aid the farmers in their struggle now to meet the required production, not only for export but for our own needs. We are very much handicapped, as we all know.

I do not think the remarks of the gentleman were strong enough. I have letters to-day from persons complaining of the inability to find markets for some stuff they have, and that is forcing a reduced production on the country, and we believe something of this kind

will stimulate production, and I do not believe that too much encouragement can be given to the agricultural side of this question.

Mr. WATSON. It was stated here that there was a great deal of butter being bought in this country. Do you think it wise to have a tax on that butter in order that they may keep their butter home and feed their own poor, and that we may have our own butter here to feed ourselves?

Mr. BOWEN. I can not speak authoritatively for the organization on that, but my individual view is that if that butter had been sold over where it belonged, we would be all very much better off, all the way through.

Mr. WATSON. You can not have butter without cows, and when you have cows there must be a great many bulls dropped, and those bulls must be turned into something. Therefore, if they have enough butter to send to this country, they must have enough cattle to feed the poor.

Mr. BOWEN. I learned a few days ago that cows are being sent abroad from this country; that on account of the condition of dairy products, they are shipping cows over to Europe and to the City of Mexico. I know of one individual case in Illinois of a lady who has shipped her milk herd, comprising from 100 to 600 cows, out of the country. Gentlemen, it is serious. It is a matter of common sense to look to agriculture. I was very much impressed with the question you asked. Agriculture must be developed. For that reason, this should be given, as well as all such questions, very serious consideration.

STATEMENT OF MR. CHARLES SCHAEFER, NEW YORK, N. Y.

Mr. SCHAEFER, Mr. Chairman and gentlemen, it has been stated that the export business has increased. My line is grain. I am an exporter of grain, and since the armistice was signed we have not exported one dollar's worth of grain. The Government report that came out on May 15, 1920, stated that the exports, from July, 1919, to May 15, 1920, on wheat and flour were 222,712,121 bushels, and that for the previous year ended June 30, 1919, there were exported 297,543,745 bushels, a decrease of 74,831,624 bushels of flour and wheat combined. On oats there was a decrease of 62,485,674 bushels. On corn there was a decrease of 1,775,434 bushels.

Now, the export proposition has become very serious, and something ought to be done in order to bring it back again. The members of the exchange are all complaining in view of the fact that the export business in our line is at a standstill.

Mr. HAWLEY. Has the Government control of the wheat situation had anything to do with exports abroad?

Mr. SCHAEFER. No, sir.

Mr. HAWLEY. It has had no influence on exports, in your judgment?

Mr. SCHAEFER. No influence in the world. When Mr. Farmer sees the conditions, he will naturally curtail his production, because he figures that at least from 30 to 35 per cent of the production of this country must go for export in order to return him a substantial price for his product. I thank you, gentlemen.

(Whereupon the subcommittee adjourned.)

ADDENDA.

[Department of Commerce, Bureau of Foreign and Domestic Commerce; Philip B. Kennedy, director.]

Total values of imports and exports of the United States, March, 1920.

[Preliminary figures for 1920, corrected to Apr. 10, 1920.]

MERCHANDISE.

	March—		Nine months ending March—		
	1920	1919	1920	1919	Increase.
Imports:					
Free of duty.....	\$326,322,065	\$182,981,370	\$2,562,323,029	\$1,640,719,901	\$921,603,128
Dutiable.....	137,645,040	84,614,919	1,156,636,202	569,202,082	586,434,120
Total.....	463,967,105	267,596,289	3,719,182,231	2,209,921,983	1,518,260,248
Exports:					
Domestic.....	803,064,953	592,381,542	5,954,884,474	4,900,814,411	1,054,070,063
Foreign.....	16,000,173	10,760,106	115,988,921	81,837,967	34,150,954
Total.....	819,074,128	603,141,648	6,070,873,395	4,982,652,378	1,088,221,017
Excess of exports.....	346,011,963	335,545,359	2,331,691,164	2,784,730,395	

IMPORTS AND EXPORTS OF MERCHANDISE, BY MONTHS.

	1919-20	1918-19	1917-18	1916-17	1915-16
Imports:					
July.....	\$343,746,070	\$241,877,758	\$225,926,352	\$182,722,938	\$143,244,737
August.....	367,285,978	273,002,914	267,554,767	199,316,490	141,894,392
September.....	435,449,747	261,608,644	266,196,898	164,638,614	151,296,626
October.....	401,845,120	246,764,906	221,227,405	178,608,780	149,172,729
November.....	424,810,272	251,088,657	220,334,550	176,867,749	153,496,475
December.....	380,710,323	210,886,517	227,911,467	201,834,188	171,832,565
January.....	473,825,869	212,992,644	253,842,081	241,798,282	184,520,942
February.....	467,542,587	235,124,274	207,715,540	196,479,996	163,935,117
March.....	483,967,105	267,596,289	242,162,017	270,557,139	213,599,785
April.....	272,956,949	278,981,327	253,935,966	218,935,966	218,230,207
May.....	328,925,593	322,852,888	286,727,144	229,188,467	229,188,467
June.....	292,915,543	260,350,071	306,622,609	245,795,438	245,795,438
9 months ending March.....	3,719,182,231	2,200,921,983	2,083,471,107	1,818,009,116	1,504,662,718
12 months ending June.....	3,095,729,068	2,945,655,403	2,696,355,185	2,197,885,510	
Exports:					
July.....	568,687,515	507,467,709	372,758,414	444,713,964	298,468,702
August.....	646,054,425	527,013,916	488,655,597	510,167,438	300,609,995
September.....	593,214,296	550,383,994	454,506,904	514,924,124	300,654,951
October.....	631,618,449	501,800,550	542,101,146	492,813,918	326,152,009
November.....	701,013,583	522,236,594	457,227,094	516,167,324	327,670,333
December.....	681,415,909	563,886,112	600,135,006	525,235,780	359,306,502
January.....	722,126,890	622,036,726	504,797,306	615,321,582	330,036,410
February.....	645,796,138	583,097,012	411,861,370	467,048,496	401,758,574
March.....	819,074,128	603,141,648	522,900,238	555,985,699	410,742,634
April.....	714,800,157	714,800,157	500,142,006	528,921,815	398,648,332
May.....	603,967,923	500,924,791	549,673,545	474,803,637	474,803,637
June.....	483,967,105	267,596,289	455,799,399	373,467,789	464,985,550
9 months ending March.....	6,050,873,395	4,982,652,378	4,384,544,275	4,636,972,245	2,905,134,700
12 months ending June.....	7,232,282,686	5,919,711,371	6,290,048,304	4,303,482,885	

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